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

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE
SECURITIES EXCHANGE ACT OF 1934

For the month of October 2009

Commission File Number: 001-33107

CANADIAN SOLAR INC.

No. 199 Lushan Road
Suzhou New District
Suzhou, Jiangsu 215129
People's Republic of China
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☑ Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No ☑

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

82- N/A

CANADIAN SOLAR INC.

Form 6-K

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Signature

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EXPLANATORY NOTES

This Current Report on Form 6-K includes (i) the unaudited condensed consolidated financial statements for the six months ended June 30, 2008 and 2009 of Canadian Solar Inc. (the "Company"), attached hereto as Exhibit 99.1, (ii) the Company's management's discussion and analysis of financial condition and results of operations for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2008 and 2009, attached hereto as Exhibit 99.2, (iii) the audited consolidated financial statements as of December 31, 2008 and 2007 and for the years ended December 31, 2006, 2007 and 2008, recast for the retrospective application of adoption of the FASB Staff Position APB No. 14-1 *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement* ("FSP APB 14-1"), attached hereto as Exhibit 99.3, and (iv) a consent letter of the Company's independent registered public auditing firm, attached hereto as Exhibit 99.4. The Company is filing this Form 6-K so that these items will be incorporated by reference in the prospectus supplement to the prospectus included in the registration statement on Form F-3 (File No. 333-152325).

Effective January 1, 2009, the Company adopted FSP APB 14-1, which requires recognition of both the debt and equity components of convertible debt instruments with cash settlement features. The debt component is required to be initially recognized at the fair value of a similar instrument that does not have an associated equity component. The equity component is recognized as the difference between the proceeds from the issuance of the note and the fair value of the debt component. FSP APB 14-1 also requires an accretion of the resulting debt discount over the expected life of the debt. In this Current Report on Form 6-K, the Company is filing its audited consolidated financial statements as of December 31, 2008 and 2007 and for the years ended December 31, 2006, 2007 and 2008, which give effect to the retrospective application of the adoption of FSP APB 14-1.

Based on the audited consolidated financial statements as of December 31, 2008 and 2007 and for the years ended December 31, 2006, 2007 and 2008, recast for the retrospective application of the adoption of FSP APBB14-1, and the unaudited condensed consolidated financial statements for the six months ended June 30, 2008 and 2009, the Company has prepared its selected consolidated financial and operating data and management's discussion and analysis of financial condition and results of operations for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2008 and 2009, which are included in this Form 6-K as Exhibit 99.2 to be incorporated by reference in the prospectus supplement to the prospectus included in the registration statement on Form F-3 (File No. 333-152325).

In addition, the Company is including with this Current Report on Form 6-K an exhibit consisting of the consent from its independent registered public accounting firm.

This Form 6-K does not attempt to modify or update any other disclosure set forth in the Company's Annual Report on Form 20-F for the year ended December 31, 2008 that was filed with the SEC on June 8, 2009, except as required to reflect the adoption of FSP APB 14-1.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CANADIAN SOLAR INC.

By: /s/ Shawn (Xiaohua) Qu
Name: Shawn (Xiaohua) Qu
Title: Chairman, President and Chief Executive Officer

Date: October 13, 2009

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CANADIAN SOLAR INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands of U.S. Dollars)

	December 31, 2008	June 30, 2009
	$	$
ASSETS		
Current assets:		
Cash and cash equivalents	115,661	86,832
Restricted cash	20,622	158,558
Accounts receivable, net of allowance for doubtful accounts of $5,606 and $5,091 on December 31, 2008 and June 30, 2009, respectively	51,611	115,679
Inventories	92,683	107,635
Value added tax recoverable	15,900	18,728
Advances to suppliers	24,654	19,572
Foreign currency derivative assets	6,974	—
Prepaid expenses and other current assets	10,910	15,809
Total current assets	339,015	522,813
Property, plant and equipment, net	165,542	172,348
Deferred tax assets	6,966	6,537
Advances to suppliers	43,087	43,582
Prepaid land use right	12,782	12,658
Investment	3,000	3,000
Other non-current assets	263	219
TOTAL ASSETS	570,655	761,157
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	110,665	266,744
Accounts payable	29,957	59,536
Amounts due to related parties	94	41
Other payables	24,043	21,810
Advances from customers	3,571	4,107
Foreign currency derivative liabilities	—	169
Other current liabilities	4,333	6,608
Total current liabilities	172,663	359,015
Accrued warranty costs	10,847	12,190
Convertible notes	830	848
Long-term borrowings	45,357	30,738
Liability for uncertain tax positions	8,704	9,882
TOTAL LIABILITIES	238,401	412,673
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common shares — no par value: unlimited authorized shares, 35,744,563 and 35,781,293 shares issued and outstanding at December 31, 2008 and June 30, 2009, respectively	395,154	395,252
Additional paid-in capital	(66,705)	(63,548)
Retained earnings (Accumulated deficit)	(11,104)	1,783
Accumulated other comprehensive income	14,909	14,997
Total stockholders' equity	332,254	348,484
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	570,655	761,157

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

CANADIAN SOLAR INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands of U.S. Dollars, Except Share And Per Share Data)

	Six-month Periods Ended June 30, 2008	2009
	$	$
Net revenues	383,820	163,641
Cost of revenues	322,509	144,456
Gross profit	61,311	19,185
Operating expenses:		
Selling expenses	5,357	5,110
General and administrative expenses	11,911	10,928
Research and development expenses	749	1,000
Total operating expenses	18,017	17,038
Income from operations	43,294	2,147
Other income (expenses):		
Interest expense	(6,332)	(4,167)
Interest income	161	3,412
Gain on debt extinguishment	2,430	—
Debt conversion inducement expense	(10,170)	—
Gain on foreign currency derivatives	—	10,316
Foreign exchange gain	7,693	3,162
Income before income taxes	37,076	14,870
Income tax expense	(6,428)	(1,983)
Net income	30,648	12,887
Earnings per share-basic	$ 1.10	$ 0.36
Shares used in computation-basic	27,738,862	35,692,919
Earnings per share-diluted	$ 1.05	$ 0.36
Shares used in computation-diluted	29,210,678	35,802,842

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

CANADIAN SOLAR INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(In Thousands of U.S. Dollars, Except Share Data)

	Common Shares Number	Common Shares $	Additional Paid-in Capital $	Retained Earnings (Accumulated Deficit) $	Accumulated Other Comprehensive Income $	Total Stockholders' Equity $	Total Comprehensive Income $
Balance at December 31, 2008	35,744,563	395,154	(66,705)	(11,104)	14,909	332,254	
Share-based compensation	—	—	3,157	—	—	3,157	
Exercise of stock options	36,730	98	—	—	—	98	
Net income	—	—	—	12,887	—	12,887	12,887
Foreign currency translation adjustment	—	—	—	—	88	88	88
Balance at June 30, 2009	35,781,293	395,252	(63,548)	1,783	14,997	348,484	12,975

	Common Shares Number	Common Shares $	Additional Paid-in Capital $	Retained Earnings (Accumulated Deficit) $	Accumulated Other Comprehensive Income $	Total Stockholders' Equity $	Total Comprehensive Income $
Balance at December 31, 2007	27,320,389	97,454	34,636	(3,570)	5,981	134,501	
Share-based compensation	—	—	4,535	—	—	4,535	
Conversion of convertible notes	3,966,841	182,550	(110,443)	—	—	72,107	
Other	478,815	—	—	—	—	—	
Exercise of stock options	337,993	1,825	—	—	—	1,825	
Net income	—	—	—	30,648	—	30,648	30,648
Foreign currency translation adjustment	—	—	—	—	8,151	8,151	8,151
Balance at June 30, 2008	32,104,038	281,829	(71,272)	27,078	14,132	251,767	38,799

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

CANADIAN SOLAR INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of U.S. Dollars)

	Six-month Periods Ended June 30,	
	2008	2009
	$	$
Operating activities:		
Net income	30,648	12,887
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,944	9,495
Loss on disposal of property, plant and equipment	—	201
Allowance for doubtful debts	210	(595)
Write down of inventories	2,012	(6,875)
Gain on debt extinguishment	(2,430)	—
Change in fair value of foreign currency derivatives	—	7,143
Amortization of discount on debt	1,163	17
Share-based compensation	4,535	3,157
Debt conversion inducement expense	10,170	—
Changes in operating assets and liabilities:		
Inventories	(16,721)	(8,037)
Accounts receivable	(80,905)	(63,588)
Value added tax recoverable	(4,141)	(2,821)
Advances to suppliers	300	4,721
Prepaid expenses and other current assets	(236)	(4,819)
Accounts payable	3,434	29,562
Other payables	2,496	1,103
Advances from customers	8,766	533
Amounts due to related parties	(229)	(53)
Accrued warranty costs	3,772	1,343
Other current liabilities	9,790	2,274
Prepaid land use right	(4,053)	129
Liability for uncertain tax positions	2,719	1,178
Deferred taxes	(2,812)	352
Net cash used in operating activities	(28,568)	(12,693)

(Continued)

	Six-month Periods Ended June 30,	
	2008	2009
	$	$
Investing activities:		
Increase in restricted cash	(17,480)	(137,870)
Purchase of property, plant and equipment	(37,586)	(19,733)
Net cash used in investing activities	(55,066)	(157,603)
Financing activities:		
Proceeds from short-term borrowings	104,859	187,068
Proceeds from related-parties borrowings	30,000	—
Repayment of short-term borrowings	(56,597)	(60,360)
Proceeds from long-term borrowings	29,423	14,630
Issuance cost paid on convertible notes	(382)	—
Proceeds from exercise of stock options	1,825	98
Net cash provided by financing activities	109,128	141,436
Effect of exchange rate changes	1,977	31
Net increase (decrease) in cash and cash equivalents	27,471	(28,829)
Cash and cash equivalents at the beginning of the period	37,667	115,661
Cash and cash equivalents at the end of the period	65,138	86,832
Supplemental disclosure of cash flow information:		
Interest paid	(5,486)	(4,587)
Income taxes paid	(1,631)	(1,120)
Supplemental schedule of non-cash activities:		
Property, plant and equipment cost included in other payables	(3,772)	(14,001)
Conversion of convertible notes to stockholders' equity	72,107	—

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

(In Thousands of U.S. Dollars, Except Share And Per Share Data And Unless Otherwise Stated)

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") are principally engaged in the design, development, manufacturing and marketing of solar power products for global markets. During the periods covered by the unaudited condensed consolidated financial statements, substantially all of the Company's business was conducted through both CSI and the following operating subsidiaries:

Subsidiary	Date of Incorporation	Place of Incorporation	Percentage of Ownership
CSI Solartronics (Changshu) Co., Ltd.	November 23, 2001	PRC	100%
CSI Solar Technologies Inc.	August 8, 2003	PRC	100%
CSI Solar Manufacture Inc.	January 7, 2005	PRC	100%
CSI Central Solar Power Co., Ltd.	February 24, 2006	PRC	100%
Changshu CSI Advanced Solar Inc.	August 1, 2006	PRC	100%
CSI Cells Co., Ltd.	August 23, 2006	PRC	100%
Canadian Solar (USA) Inc.	June 8, 2007	USA	100%
CSI Solar Power Inc.	April 28, 2008	PRC	100%
Canadian Solar Japan Inc.	June 21, 2009	Japan	100%
Canadian Solar Solutions Inc.	June 22, 2009	Canada	100%

2. BASIS OF PRESENTATION

The Company is responsible for the unaudited condensed consolidated financial statements included in this document, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include all normal and recurring adjustments that management of the Company considers necessary for a fair presentation of its financial position and operating results. The Company prepared these statements following the requirements of the U.S. Securities and Exchange Commission (the "SEC") for interim reporting. As permitted under those rules, the Company condensed or omitted certain footnotes or other financial information that are normally required by GAAP for annual financial statements. These statements should be read in combination with the consolidated financial statements in the Company's Annual Report on Form 20-F and its subsequent amendments, if any, for the fiscal year ended December 31, 2008.

3. ACCOUNTING CHANGES

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") Opinion 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ("FSP APB 14-1"). FSP APB 14-1 requires recognition of both the liability and equity components of convertible debt instruments with cash settlement features. The debt component is required to be recognized at the fair value of a similar instrument that does not have an associated equity component. The equity component is recognized as the difference between the proceeds from the issuance of the note and the fair value of the liability. FSP APB 14-1 also requires an accretion of the resulting debt discount over the expected life of the debt. This FSP was effective since January 1, 2009 and applied retrospectively to all periods presented.

3. ACCOUNTING CHANGES — continued

The impact of adoption of FSP APB 14-1 on the unaudited condensed consolidated financial statement line items as of December 31, 2008 and for six-month periods ended June 30, 2008 was illustrated in the following tables. Since the majority of the convertible notes were converted into common shares in June 2008, the accounting change did not have material impact on the financial statements for the six-month period ended June 30, 2009.

Unaudited Condensed Consolidated Statements of Operations:

	Six-month Period Ended June 30, 2008		
	As Originally Reported	As Adjusted	Effect of Change
Interest expense	(5,408)	(6,332)	(924)
Gain on debt extinguishment	—	2,430	2,430
Foreign exchange gain	7,574	7,693	119
Income before income taxes	35,451	37,076	1,625
Income tax expense	(5,909)	(6,428)	(519)
Net income	29,542	30,648	1,106

Unaudited Condensed Consolidated Balance Sheets:

	At December 31, 2008		
	As Originally Reported	As Adjusted	Effect of Change
Prepaid expenses and other current assets	10,918	10,910	(8)
Total current assets	339,023	339,015	(8)
Deferred tax assets	6,998	6,966	(32)
Other non-current assets	299	263	(36)
Total assets	570,731	570,655	(76)
Convertible notes	1,000	830	(170)
Total liabilities	238,571	238,401	(170)
Common shares	294,707	395,154	100,447
Additional paid-in capital	35,538	(66,705)	(102,243)
Accumulated deficit	(12,994)	(11,104)	1,890
Total stockholders' equity	332,160	332,254	94
Total liabilities and stockholders' equity	570,731	570,655	(76)

4. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued SFAS No. 166, "*Accounting for Transfers of Financial Assets-an amendment of FASB Statement No. 140*". The statement improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This Statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company is currently evaluating the impact of this statement on its consolidated financial statements.

4. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS — continued

In June 2009, the FASB issued SFAS No. 167, "*Amendments to FASB Interpretation No. 46(R)*" ("SFAS 167"), which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. SFAS 167 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. SFAS 167 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. SFAS 167 also requires additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. SFAS 167 is effective for fiscal years beginning after November 15, 2009. The Company does not expect that the adoption of SFAS 167 will have an impact on the consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "*The 'FASB Accounting Standards Codification' and the Hierarchy of Generally Accepted Accounting Principles*" ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification ("Codification"), which officially commenced July 1, 2009, to become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ('SEC") under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. The subsequent issuances of new standards will be in the form of Accounting Standards Updates that will be included in the Codification. Generally, the Codification is not expected to change U.S. GAAP. All other accounting literature excluded from the Codification will be considered nonauthoritative. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Effective July 1, 2009, the Company adopted SFAS 168 on its financial statement disclosures as all future references to authoritative accounting literature will be referenced in accordance with the Codification.

5. INVENTORIES

Inventories consist of the following:

	At December 31, 2008	At June 30, 2009
	$	$
Raw materials	46,122	39,515
Work-in-process	17,221	50,773
Finished goods	29,340	17,347
	92,683	107,635

6. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consists of the following:

	At December 31, 2008	At June 30, 2009
	$	$
Buildings	23,855	43,742
Leasehold improvements	1,675	2,194
Machinery	72,018	98,737
Furniture, fixtures and equipment	5,570	5,758
Motor vehicles	1,055	1,130
	104,173	151,561
Less: Accumulated depreciation	(11,889)	(20,919)
	92,284	130,642
Construction in process	73,258	41,706
Property, plant and equipment, net	165,542	172,348

Depreciation expense was $2,925 and $9,395 for the six-month periods ended June 30, 2008 and 2009, respectively. Construction in process represents production facilities under construction.

7. FAIR VALUE MEASUREMENT

On January 1, 2008, the Company adopted SFAS 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands financial statement disclosure requirements for fair value measurements. The Company's adoption of SFAS 157 was limited to its financial assets and financial liabilities in 2008, as permitted by FSP 157-2. Starting from January 1, 2009, the Company had fully adopted SFAS 157. The Company does not have any non financial assets or non financial liabilities that it recognizes or discloses at fair value in its financial statements on a recurring basis. The implementation of the fair value measurement guidance of SFAS 157 did not result in any material changes to the carrying values of the Company's financial instruments on its opening balance sheet on January 1, 2008.

SFAS 157 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) on the measurement date in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. SFAS 157 specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

- Level 1 — Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.
- Level 2 — Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.
- Level 3 — Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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.

The Company's foreign currency derivative assets or liabilities relate to foreign exchange option or forward contracts involving major currencies such as Euro and USD. Since its derivative assets or liabilities 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, it classifies these valuation techniques 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.

As of December 31, 2008 and June 30, 2009, the fair value measurement of the Company's foreign currency derivative 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 June 30, 2009	**Total Fair Value and Carrying Value on the Balance Sheet**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Liabilities:				
Foreign exchange option contracts	$ 169	$ —	$ 169	$ —
Total Liabilities	$ 169	$ —	$ 169	$ —

7. FAIR VALUE MEASUREMENT — continued

As of December 31, 2008	Fair Value Measurements at Reporting Date Using: Total Fair Value and Carrying Value on the Balance Sheet	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	$ 6,136	$ —	$ 6,136	$ —
Foreign exchange forward contracts	$ 838	$ —	$ 838	$ —
Total Assets	$ 6,974	—	$ 6,974	—

The carrying value of cash and cash equivalents, trade receivables, advances to suppliers, accounts payable and short-term borrowings approximate their fair values due to the short-term maturity of these instruments. Long-term bank borrowings approximate their fair value since the contracts were entered into with floating market interest rates.

The carrying amount of the Company's outstanding convertible notes as of December 31, 2008 and June 30, 2009 was $830 and $848, respectively, which approximated fair value. The Company did not compute the fair value of its $3 million investment as of December 31, 2008 and June 30, 2009 as it was impracticable to do so without incurring significant cost.

The Company's primary objective for holding derivative financial instruments is to manage currency risk. The Company records derivative instruments as assets or liabilities, measured at fair value. The recognition of gains or losses resulting from changes in fair values 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 statement of operations. The Company recorded gain on foreign currency derivative contracts as $nil and $10,316 for the six-month periods ended June 30, 2008 and 2009, respectively.

The effect of fair values of derivative instruments on the unaudited condensed consolidated balance sheets as of December 31, 2008 and June 30, 2009 and the effect of derivative instruments on the unaudited condensed consolidated statements of operations for the six-month period ended June 30, 2009 are as follows:

Derivatives not designated as hedging instruments under Statement 133	Fair Values of Asset Derivatives — At June 30, 2009: Balance Sheet Location	At June 30, 2009: Fair Value	At December 31, 2008: Balance Sheet Location	At December 31, 2008: Fair Value
Foreign exchange option contracts		—	Foreign currency derivative assets	$ 6,136
Foreign exchange forward contracts		—	Foreign currency derivative assets	838
Total derivatives		—		$ 6,974

Derivatives not designated as hedging instruments under Statement 133	Fair Values of Liability Derivatives			
	At June 30, 2009		At December 31, 2008	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange option contracts	Foreign currency derivative liabilities	$ 169		—
Total derivatives		$ 169		—

Derivative not designated as hedging instruments under Statement 133	Location of gain recognized in income on derivatives	Amount of gain recognized in income on derivatives Six-month Period Ended June 30, 2009
		$
Foreign exchange option contracts	Gain on foreign currency derivatives	$ 5,069
Foreign exchange forward contracts	Gain on foreign currency derivatives	5,247
Total derivatives		$ 10,316

8. BANK BORROWING

In the six-month period ended June 30, 2009, CSI Cells Co., Ltd., CSI Central Solar Power Co., Ltd. and. Changshu CSI Advanced Solar Inc. entered into several bank note discounting agreements with local Chinese commercial banks for working capital purposes. The total additional bank note financing amounted to $97,786 with maturities within six months. These bank note financings bore an average interest rate of 1.68% per annum and were secured by equivalent amounts of restricted cash deposits.

In the six-month period ended June 30, 2009, CSI Cells Co., Ltd , CSI Central Solar Power Co., Ltd. and CSI Solar Manufacture Inc. entered into several loan agreements with local Chinese commercial banks for working capital purposes. The total additional bank loans amounted to $89,282 million with maturities within one year. These short-term bank loans bore interest rates ranging from 1.11% to 5.35% per annum and were guaranteed by Canadian Solar Inc. and other subsidiaries within the Company.

On June 25, 2009, CSI Solar Power Inc. entered into a loan agreement with a local Chinese commercial bank for the expansion of solar module production capacity. The total credit facility under this agreement was $14,630, which was fully utilized as of June 30, 2009, and requires repayment of $1,462 in 2010, $4,390 in 2011, $4,390 in 2012, $2,926 in 2013 and $1,462 in 2014. Interest is due quarterly in arrears. The borrowing was guaranteed by CSI Cells Co., Ltd. and bore a floating interest rate calculated as 95% of the interest rate published by People’s Bank of China for borrowings with the same maturities and does not contain any financial covenants or restrictions.

9. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated:

	Six-month Periods Ended June 30, 2008	Six-month Periods Ended June 30, 2009
	$	$
Net income-basic	30,648	12,887
Plus: Interest on convertible notes	45	—
Net income-diluted	30,693	12,887
Shares used in computation-basic	27,738,862	35,692,919
Plus: options	1,421,209	109,923
convertible notes	50,607	—
Shares used in computation-diluted	29,210,678	35,802,842
Earnings per share-basic	$ 1.10	$ 0.36
Earnings per share-diluted	$ 1.05	$ 0.36

The computation of diluted earnings per share excludes 50,607 common shares issuable upon the assumed conversion of the convertible debt for the six-month period ended June 30, 2009, as well as 43,382 and 1,480,824 common shares issuable upon the assumed exercise of share options for the six-month periods ended June 30, 2008 and 2009 respectively, as their effect would have been anti-dilutive.

10. RELATED PARTY BALANCES AND TRANSACTIONS

Related party balances:

The amount due to related party as of December 31, 2008 and June 30, 2009 is a government award payable to Mr. Shawn Qu, CEO, director and stockholder of the Company, who has beneficial interest in the Company.

Related party transactions:

The Company borrowed $30,000 in June 2008 from Mr. Shawn Qu, CEO, director and stockholder of the Company, with an interest rate of 7%. The borrowing was used for working capital purposes and was repaid in December 2008.

During the six-month periods ended June 30, 2008 and 2009, the Company paid loan interest to Mr. Shawn Qu in the amount of $128 and $nil, respectively.

11. COMMITMENTS AND CONTINGENCIES

In order to secure future silicon materials, solar wafers and solar cell supply, the Company entered into several long-term supply agreements with overseas and domestic suppliers in the past several years. Under such agreements, the suppliers agreed to provide the Company with specified quantities of silicon materials, solar wafers and solar cells, and the Company has made prepayments to these suppliers in accordance with the supply contracts. The prices of some supply contracts were pre-determined and others were subject to adjustment to reflect the prevailing market level when transactions occur.

The following is a schedule, by year, of future minimum obligation under all supply agreements as of June 30, 2009:

Second Half of Year 2009	$ 123,896
Year 2010	474,220
Year 2011	631,457
Year 2012	639,446
Year 2013	599,059
Thereafter	1,113,411
Total	$ 3,581,489

12. SEGMENT INFORMATION

The Company primarily operates in a single reportable business segment that includes the design, development and manufacture of solar power products.

The following table summarizes the Company's net revenues generated from different geographic locations:

	Six-month periods ended June 30,	
	2008	2009
	$	$
Europe	355,924	102,937
Asia	15,522	41,883
America	12,374	18,821
Total net revenues	383,820	163,641

Substantially all of the Company's long-lived assets are located in the PRC.

13. SHARE OPTIONS

On May 30, 2006, the Board of Directors approved the adoption of a share incentive plan to provide additional incentives to employees, directors or external consultants. The maximum aggregate number of shares which may be issued pursuant to all awards (including options) is 2,330,000 shares, plus for awards other than incentive option shares, an annual increase to be added on the first business day of each calendar year beginning in 2007 equal to the lesser of one percent (1%) of the number of common shares outstanding as of such date, or a lesser number of common shares determined by the Board of Directors or a committee designated by the Board. The share incentive plan will expire on, and no awards may be granted after, March 15, 2016. Under the terms of the share incentive 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 June 30, 2009, there was $7,077 in total unrecognized compensation expense related to share-based compensation awards, which is expected to be recognized over a weighted-average period of 2.77 years. During the six-month periods ended June 30, 2008 and 2009, $2,121, and $2,953 was recognized as compensation expense, respectively. There is no income tax benefit recognized in the income statement for the share-based compensation arrangements in the six-month periods ended June 30, 2008, and 2009.

For all stock options granted for the six-month periods ended June 30, 2008 and 2009, the Company used the Binomial option-pricing model to estimate the fair value of each stock option grant. The use of a valuation model requires the Company to make certain assumptions with respect to selected model inputs.

The following assumptions were used to estimate the stock options granted in the six-month periods ended June 30, 2008 and 2009:

	Six-month Periods Ended June 30,	
	2009	2008
Risk free rate	5.40%~5.67%	5.14%~5.92%
Contractual life of the option	10 years	10 years
Volatility ratio	81%	78%~79%
Dividend yield	—	—
Annual exit rate	3.56%	8.00%
Suboptimal exercise factor	6.20	3.27

13. SHARE OPTIONS — continued

A summary of the option activity is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Term	Aggregate Intrinsic Value
		$		$
Options outstanding at January 1, 2009	1,368,873	10.33		
Granted	685,500	5.75		
Exercised	(36,730)	2.66		
Cancelled or Forfeited	(51,263)	13.17		
Options outstanding at June 30, 2009	1,966,380	8.80	8.4 years	11,379
Options vested or expected to vest at June 30, 2009	1,866,545	8.89	8.3 years	10,749
Options exercisable at June 30, 2009	839,467	11.19	7.7 years	4,233

The weighted average grant-date fair value of options granted in the six-month periods ended June 30, 2008 and 2009 was $22.64, and $4.61, respectively. The total intrinsic value of options exercised during the six-month periods ended June 30, 2008 and 2009 was $12,243 and $358, respectively.

Options and Restricted shares to Non-employees

On June 30, 2006, the Company granted 116,500 restricted shares to certain consultants for services to be rendered in the two-year period from the date of grant. These shares vested on the anniversary date of June 30, 2007 and 2008 on the straight-line basis. On April 13, 2007, the Company granted 11,650 share options to its external consultants in exchange for its consulting services. The options had an exercise price of $15 and vested immediately. The Company recorded compensation expenses of $1,521 and $nil during the six-month periods ended June 30, 2008 and 2009 over the vesting period, with the final computation of fair value measured on the vesting date of these non-employee awards.

Restricted shares to Employees

The Company granted 333,190 and 116,500, restricted shares to employees in May 2006 and July 2006, respectively. The restricted shares were granted at nominal value and generally vest over periods from one to four years based on the specific terms of the grants. The difference between the exercise price of the options and the fair market value of the Company’s ordinary share at the date of grant resulted in total compensation cost of approximately $7,108 that will be recognized ratably over the vesting period. During the six-month periods ended June 30, 2008 and 2009, $893 and $204 were amortized as compensation expenses, respectively.

As of June 30, 2009, there was $443 of total unrecognized share-based compensation related to unvested restricted share awards. That cost is expected to be recognized over an estimated weighted average amortization period of 1.08 years.

A summary of the status of the Company’s unvested restricted shares granted to both employee and non-employee is presented below:

	Number of Shares	Weighted Average Grant-Date Fair Value
		$
Unvested at January 1, 2009	58,250	14.12
Granted	—	—
Vested	—	—
Cancelled or Forfeited	—	—
Unvested at June 30, 2009	58,250	14.12

The total fair value of restricted shares vested during the six-month periods ended June 30, 2008 and 2009 was $5,572 and $nil respectively.

14. SUBSEQUENT EVENTS

Subsequent to June 30, 2009, the following events occurred:

a) On July 7, 2009, the Company registered a 100% owned subsidiary, CSI Solar Power (China) Inc. ("CSI China"), in Suzhou, China with an initial registered capital of $30,000. The Company plans to transfer all of its direct investments in its Chinese subsidiaries into CSI China so that it becomes the Company's China investment holding and module sales company. It is currently in planning stage.

b) During the period from July 1, 2009 to September 30, 2009, the Company executed several agreements with Chinese commercial banks for working capital loans totaling $183.9 million with maturities ranging from two months to one year and bearing interest from 1.06% to 5.31% per annum.

The Company has evaluated subsequent events, through October 13, 2009.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following selected statement of operations data for the years ended December 31, 2006, 2007 and 2008 and the balance sheet data as of December 31, 2007 and 2008 have been derived from our audited consolidated financial statements, which give effect to the retrospective application of the adoption of the FASB Staff Position APB No. 14-1 *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement*, or FSP APB 14-1. The following selected unaudited consolidated statement of operations data for the six months ended June 30, 2008 and June 30, 2009, and the selected unaudited consolidated balance sheet data as of June 30, 2009, have been derived from our unaudited condensed consolidated financial statements, which have been prepared on the same basis as our audited consolidated financial statements. Our audited financial statements and the accompanying notes and the unaudited condensed financial statements and the accompanying notes are included elsewhere in this current report on Form 6-K. You should read the selected consolidated financial data in conjunction with those financial statements and the related notes and "Operating and Financial Review and Prospects" included elsewhere in this current report on Form 6-K.

Our selected consolidated statement of operations data for the years ended December 31, 2004 and 2005 and our consolidated balance sheet data as of December 31, 2004, 2005 and 2006 have been derived from audited consolidated financial statements that are not included in this current report on Form 6-K.

All audited financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results may not be indicative of our results for any future periods.

	Years Ended December 31,					Six Months Ended June 30,	
	2004	2005	2006	2007	2008	2008 (unaudited)	2009 (unaudited)
	(In thousands of US$, except share and per share data, and operating data and percentages)						
Statement of operations data:							
Net revenues	$ 9,685	$ 18,324	$ 68,212	$ 302,798	$ 705,006	$ 383,820	$ 163,641
Net income (loss)	$ 1,457	$ 3,804	$ (9,430)	$ (175)	$ (7,534)	$ 30,648	$ 12,887
Earnings (loss) per share:							
Basic	$ 0.09	$ 0.25	$ (0.50)	$ (0.01)	$ (0.24)	$ 1.10	$ 0.36
Diluted	$ 0.09	$ 0.25	$ (0.50)	$ (0.01)	$ (0.24)	$ 1.05	$ 0.36
Shares used in computation:							
Basic	15,427,995	15,427,995	18,986,498	27,283,305	31,566,503	27,738,862	35,692,919
Diluted	15,427,995	15,427,995	18,986,498	27,283,305	31,566,503	29,210,678	35,802,842
Other financial data:							
Gross margin	33.2%	38.8%	18.1%	7.9%	10.1%	16.0%	11.7%
Operating margin	19.0%	28.5%	1.6%	(0.6)%	3.4%	11.3%	1.3%
Net margin	15.0%	20.8%	(13.8)%	(0.1)%	(1.1)%	8.0%	7.9%
Selected operating data:							
Products sold (in MW)							
— Standard solar modules	1.8	3.4	14.7	83.4	166.5	88.9	66.2
— Specialty solar modules and products	0.4	0.7	0.2	—	—	—	—
Total	2.2	4.1	14.9	83.4	166.5	88.9	66.2
Average selling price (in $ per watt)							
— Standard solar modules	$ 3.62	$ 3.92	$ 3.97	$ 3.75	$ 4.23	$ 4.20	$ 2.47

	As of December 31,					As of June 30,
	2004	2005	2006	2007	2008	2009
	(In thousands of US$, except share data)					
Balance Sheet Data:						
Total assets	$ 6,145	$ 27,430	$ 129,634	$ 277,622	$ 570,654	$ 761,157
Net assets	$ 2,961	$ 6,967	$ 112,904	$ 134,501	$ 332,254	$ 348,484
Long-term debt	$ —	$ —	$ —	$ 17,866	$ 45,357	$ 30,738
Convertible notes	$ —	$ 3,387	$ —	$ 59,885	$ 830	$ 848
Capital stock(1)	$ 211	$ 211	$ 97,302	$ 97,454	$ 395,154	$ 395,252
Number of shares outstanding(2)	15,427,995	15,427,995	27,270,000	27,320,389(2)	35,686,313(2)	35,723,043(2)

(1) Excluding long term debt and convertible notes.

(2) Excluding 566,190, 58,250 and 58,250 restricted shares, which were subject to restrictions on voting and dividend rights and transferability, as of December 31, 2007, 2008 and June 30, 2009 respectively.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the audited financial statements and the accompanying notes and the unaudited condensed financial statements and the accompanying notes included elsewhere in this current report on Form 6-K. 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 our annual report on Form 20-F filed on June 8, 2009, as amended on October 13, 2009, or our Form 20-F.

A. <u>Operating Results</u>

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

- government subsidies and availability of financing for solar projects;
- industry and seasonal demand;
- product pricing;
- price of solar cells and wafers and silicon raw materials; and
- foreign exchange.

Government Subsidies and 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 financing for solar projects. The cost of constructing and operating a solar power system substantially exceeds the cost of purchasing power provided by the electric utility grid in many locations at this time. As a result, federal, state and local governmental bodies in many countries, most notably Germany, Spain, Italy, South Korea, the United States, Japan and China, have provided subsidies and economic incentives to reduce dependency on conventional sources of energy. These subsidies and incentives include rebates, tax credits, loan guarantees and other incentives to end users, distributors, system integrators and manufacturers of solar power products, to promote the use of solar energy in on-grid and, to a lesser extent, off-grid applications. The demand for our solar module products, in particular our standard solar modules, is affected significantly by these government subsidies and economic incentives. See "Item 3. Key Information — D. Risk Factors — Risks Related to Our Company and Our Industry — Revision, reduction or elimination of government subsidies and economic incentives for solar power could cause demand for our products and our revenues, profits and margins to decline" in our Form 20-F.

Additionally, the current global economic crisis and limited availability of credit and liquidity could adversely impact our customers' ability to finance the purchase of our products or to construct solar power projects, and we may also face collection problems with customers facing credit challenges either internally or in the event that their own customers or banking counterparties default, which would adversely affect our business and results of operations. See "Item 3. Key Information — D. Risk Factors — Risks Related to Our Company and Our Industry — The execution of our growth strategy is dependent 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 for solar products, hamper our expansion and materially affect our results of operations" in our Form 20-F.

In the past, we have been able to partially mitigate collection risk on accounts receivables through trade financing, accounts receivable insurance or security from customers in the form of letters of credit or liens against project assets. There is no guarantee that we will be able to use any of these mechanisms in all cases. For example, deterioration of the credit markets could render our customers and their accounts ineligible for receivables insurance. In the event that our customers cancel their orders or are unable to obtain financing, we may not be able to recoup prepayments made to suppliers in connection with our customers' orders, which could have an adverse impact on our financial condition and results of operations.

Industry and Seasonal Demand

Our business and revenue growth depends on the demand for solar power. Although solar power technology has been used for several decades, the solar power market has grown significantly in the past several years. See "Item 4. Information on the Company — B. Business Overview" in our Form 20-F for a more detailed discussion of the factors driving the growth of the solar power industry and the challenges that it faces. In addition, industry demand is affected by seasonality. Demand for solar power tends to be lower in the winter, primarily because of adverse weather conditions, particularly in Germany, one of our key markets, which complicate the installation of solar power systems. For example, our sales to Germany slowed significantly in the fourth quarter of 2008 and the first quarter of 2009 due to low seasonal demand and shortfalls in the availability of debt financing, together with inventory clearing efforts by some solar module producers. However, demand from other key markets may offset seasonal fluctuations from time to time. For instance, high demand in the fourth quarter 2007 and the first quarter 2008 from Spain, a warm weather market, allowed us to achieve record sales quarters, despite a slowdown in German sales. We do not believe that we will experience a decline in demand in the fourth quarter of 2009 and the first quarter of 2010 as severe as the one the solar industry experienced in 2008. As governments around the world continue to approve subsidies that encourage the use of solar energy, we expect to be able to take advantage of the diversity of global markets to mitigate some of the effects of seasonality on our business results in the future.

See "Item 3. Key Information — D. Risk Factors — Risks Related to Our Company and Our Industry — If solar power technology is not suitable for widespread adoption, or 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" in our Form 20-F.

Product Pricing

We began selling our solar module products in March 2002 and we generated all of our net revenues in 2002 and 2003 from sales of specialty solar modules and products. We did not begin selling standard solar modules until 2004. In 2004, the sale of standard solar modules represented 72.5% of our net revenues. In 2005 and 2006, that percentage increased to 76.9% and 96.8%, respectively, excluding silicon materials sales. In 2007, approximately 96.0% of our solar module product net revenues consisted of standard solar module sales. We generated the remainder of our net revenues primarily from sales of silicon materials. In 2008, approximately 98.2% of our solar module product net revenues consisted of standard solar module sales, with the remainder consisting of sales of silicon materials. In the six months ended June 30, 2009, approximately 99.9% of our solar module product net revenues consisted of standard solar module sales, with the remainder consisting of sales of silicon materials.

We have been pricing our standard solar modules based on the actual number of watts of electricity that they can generate. In 2009, we began pricing some of our standard solar modules based on the designed electricity-generating capacity of each standard solar module. Overall demand in the solar power industry affects the actual price per watt of our standard solar modules. 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 the costs of our solar wafers, cells and silicon raw materials. 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 increased from $3.62 per watt in 2004 to $3.92 per watt in 2005 and $3.97 per watt in 2006, before dropping slightly to $3.75 per watt in 2007 due to temporary industry over-supply. Following a peak in the third quarter of 2008, the industry average selling prices of solar modules declined sharply beginning in the fourth quarter of 2008, as market demand declined sharply and competition increased due to the global financial crisis, the greater maturity of markets and increased manufacturing output. The average selling price of our standard solar module products was $3.30 per watt in the fourth quarter of 2008 and $2.47 per watt in the six months ended June 30, 2009.

Price of Solar Cells and Wafers and Silicon Raw Materials

We produce solar modules, which comprise an array of interconnected solar cells encased in a weatherproof frame, and products that use solar modules. Solar cells are the most important component for making solar modules. We currently make our solar cells from mono-crystalline wafers and multi-crystalline silicon wafers through multiple manufacturing steps, including surface texturization, diffusion, plasma-enhanced chemical vapor deposition and surface metallization. Solar wafers comprise the most important material for making solar cells. There presently exists an oversupply of solar cells and wafers as a result of increased capacity and decreased demand in the solar market. This exposes us to inventory write-downs. We have been renegotiating our supply agreements to adjust purchase prices based on prevailing market prices at the time we place each purchase order, and we wrote down inventory in the fourth quarter of 2008. If we are unable, on an ongoing basis, to continue to procure silicon, wafers and cells at prices that decline in line with solar module pricing, our revenues and margins could be adversely impacted, either due to relatively high costs compared to competitors, further write-downs of inventory, or both, and our market share could decline if competitors are able to offer better pricing than we can offer.

Our flexible vertical integration strategy allows us to some extent to rely on our internal ingot-to-wafer and wafer-to-cell manufacturing capacity to exert greater stability and control over the costs of wafers and cells. This strategy can help to preserve our margins in a declining price environment. Currently, we secure a large percentage of our supply of solar wafers through purchasing from third parties, including entering into tolling arrangements. We also purchase limited quantities of solar cells directly from our suppliers.

We believe that our current silicon raw material supply agreements, combined with internal capacity and outsourcing arrangements, will enable us to secure or manufacture solar cells and solar wafers sufficient for all of our estimated 2009 production output. We may still enter into long-term supply contracts and we plan to expand our in-house solar cell and wafer manufacturing capability. In the event of a future supply disruption or shortfall in silicon production, we cannot assure you that we will be able to secure sufficient quantities of solar wafers, cells and silicon raw materials to meet our increasing production demand.

Suppliers of solar wafers and cells and silicon raw materials have typically required customers to make prepayments well in advance of shipment. While we also sometimes require our customers to make partial prepayments, there is typically a lag between the time of our prepayment for solar wafers, cells and silicon raw materials and the time when our customers make prepayments to us. Although for the foreseeable future our supply contracts should not contain prepayment terms, 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.

Foreign Exchange

We pay most of our expenses in Renminbi, which since July 2008 has generally fluctuated in tandem with the U.S. dollar, and in U.S. dollars. However, since 2007, most of our sales have been denominated in Euros. This creates a foreign exchange risk, which can impact our revenues and margins, in the event that the Euro depreciates against the U.S. dollar, as occurred in the second half of 2008. In 2008, we began to hedge our Euro exposure against the U.S. dollar using single put and call collars and forward contracts. We were able to mitigate a substantial portion, but not all, of our exchange rate losses for 2008 by hedging. We also reported an exchange rate gain in the six months ended June 30, 2009. We will continue to hedge our Euro exposure against the U.S. dollar in order to increase our foreign exchange visibility and limit losses. We also expect our U.S. dollar-denominated sales to increase in the remainder of 2009. Increasingly, however, banks are requiring collateral in order to enter into hedging contracts and expenses associated with purchasing currency options have increased. Due to increased volatility in the Euro-U.S. dollar exchange rate and decreased sales visibility caused by the current market environment, the effectiveness of our hedging program may diminish with respect to cost effectiveness, cash management, exchange rate visibility and downside protection.

Overview of Financial Results

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

Net Revenues

We generate revenues primarily from the sale of solar module products, which consist of standard solar modules and specialty solar modules and products. Solar module products accounted for 87.6%, 96.0% and 98.2% of our net revenues in 2006, 2007 and 2008, respectively, and 98.1% and 99.9% of our net revenues for the six months ended June 30, 2008 and 2009, respectively. Since 2007, the resale of silicon has accounted for a small percentage of our total revenue because the competition to obtain silicon materials was much greater than in 2006. Since the fourth quarter of 2008, the solar industry has experienced an oversupply of silicon, and we believe that revenues from the resale of silicon materials in 2009 will be very small.

In 2008, we had very limited wafer-to-module and cell-to-module tolling businesses, which entailed customers supplying solar wafers and/or solar cells to us and our fashioning these solar wafers and cells into solar modules in our facilities while charging a tolling fee to cover additional materials costs and generate revenue. Going forward, we believe that revenues from our tolling business will be insignificant compared to our overall net revenues. We are looking into providing those of our customers who sell solar systems with value-added services, including project finance, engineering, procurement and construction contracting, and investment activities. We believe this will help to improve our solar module market penetration in the future. The main factors affecting our net revenues include average selling prices per watt and unit volume shipped, which depend on product supply and demand. Our net revenues are net of business tax, value-added tax and returns and exchanges.

A small number of customers have historically accounted for a major portion of our net revenues. In 2006, 2007 and 2008, and the six months ended June 30, 2008 and 2009, our top five customers during those periods collectively accounted for approximately 53.5%, 78.8%, 52.6%, 61.2% and 53.9%, respectively, of our net revenues, and sales to our largest customer in those periods accounted for 14.3%, 21.1%, 14.7%, 16.4% and 19.6% of our net revenues, respectively. Our four largest customers in 2007 continued to be four of our five largest customers in 2008 and only one largest customer in the six months ended June 30, 2008 continued to be one of our five largest customers in the six months ended June 30, 2009. Changes in our product mix and strategic marketing decisions have resulted in changes in our market concentration from period to period. The following table sets forth, for the periods indicated, certain information relating to our net revenues derived from our customers categorized by their geographic location for the periods indicated:

	Years Ended December 31,						Six Months Ended June 30,			
	2006		2007		2008		2008		2009	
	(In thousands of US$, except for percentages)									
	Net Revenues	%	Net Revenues	%	Net Revenues	%	Net Revenues	%	Net Revenues	%
Europe	$ 51,981	76.2	$ 286,588	94.7	$ 631,147	89.5	$ 355,924	92.7	$ 102,937	62.9
Asia	14,200(1)	20.8	13,605	4.5	41,571	5.9	15,522	4.0	41,883	25.6
America	2,031	3.0	2,605	0.8	32,288	4.6	12,374	3.3	18,821	11.5
Total net revenues	$ 68,212	100	$ 302,798	100	$ 705,006	100	$ 383,820	100	$ 163,641	100

(1) $8.3 million of this amount was generated from a one-time silicon materials sale that took place in the fourth quarter of 2006.

Cost of Revenues

Our cost of revenues consists primarily of the costs of:

- solar grade silicon materials;
- solar wafers;
- materials used in solar cell production, such as metallic pastes;

- solar cells;
- other materials for the production of solar modules such as glass, aluminum frames, EVA and polymer backsheets;
- 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 PV products;
- depreciation and amortization of manufacturing equipment and facilities, which have increased due to capacity expansion, and which are expected to increase as we continue to expand our manufacturing capabilities and construct additional facilities; and
- inventory write-downs.

Solar wafers and cells make up the major portion of our cost of revenues. Where we manufacture solar cells in our own manufacturing facility, the costs of the solar cells consist of: (i) the costs of purchasing solar wafers, (ii) labor costs incurred in manufacturing solar cells, (iii) the costs of other materials and utilities we use for manufacturing the solar cells and (iv) depreciation charges incurred for our solar cell manufacturing facility, equipment and building. In August 2008, we completed the first phase of our production facilities for ingot growth and wafer cutting in Luoyang and subsequently started to produce our own wafers made from either UMgSi or high purity silicon feedstock. We manufacture both monocrystalline and polycrystalline wafers and supply them to our own solar cell manufacturing facility that manufactures UMgSi cells for e-Modules and regular cells. However, we purchase some of the solar wafers and cells that we need directly from wafer and cell suppliers, as our internal wafer and cell production capacity is not sufficient to meet all of our needs.

We also obtain some of our solar wafers and cells through toll manufacturing arrangements, under which we source and provide silicon feedstock to suppliers of ingots, wafers and cells. These suppliers convert these silicon raw materials into solar wafers and cells that we use for our production of solar modules. The costs of solar wafers and cells that we obtain through these toll manufacturing arrangements consist of: (i) the costs of purchasing silicon feedstock, (ii) labor costs incurred in inventory management, (iii) labor costs incurred in blending silicon feedstock as part of our silicon feedstock blending program and (iv) tolling fees charged by our suppliers under tolling arrangements. The payments we make to our suppliers for the solar wafers and cells and the payment our suppliers make to us for the silicon feedstock that we source are generally settled separately under these tolling arrangements. We do not include the payments we receive for providing silicon feedstock as part of these toll manufacturing arrangements in our net revenues.

Our cost of revenues also includes warranty costs. We accrue 1.0% of our net revenues as warranty costs at the time revenues are recognized. Prior to June 30, 2009, our standard solar modules were typically sold with two-year warranties for defects in materials and workmanship. We have extended the terms of these warranties from two years to six year since June 2009. We also offer 10-year and 25-year warranties against declines of more than 10% and 20%, respectively, in the initial minimum power generation capacity at the time of delivery for our standard solar modules. Our specialty solar modules and products are typically sold with a one-year guarantee against defects and may, depending on the characteristics of the product, contain a limited warranty of up to 10 years against declines in the minimum power generation capacity specified at the time of delivery.

Our cost of revenues has historically increased as we increased our net revenues. However, in late 2008, as a result of the global financial crisis, the demand for solar modules and the related cost of silicon materials and solar wafers and cells both decreased sharply. As a result, as of December 31, 2008, we had to make a significant write-down of our previously acquired inventories to market value. This write-down amounted to $23.3 million in 2008 and was included in our cost of revenue for 2008. We have made progress to date in renegotiating existing supply agreements with our long-term suppliers to adjust purchase prices based on prevailing market prices at the time we place each purchase order.

Gross Profit/Gross Margin

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

Our gross margin decreased from 18.1% in 2006 to 7.9% in 2007 but increased to 10.1% in 2008. The decrease from 2006 to 2007 was due primarily to the growth of our standard solar module products business. The decrease in gross margin was also attributable to the higher costs of solar cells and silicon materials and the reduced proportion of reclaimable silicon in relation to raw silicon as we continued to grow, and to a decrease in average selling prices for standard solar modules in the fourth quarter of 2006 and the first quarter of 2007 as a result of lower-than-anticipated market demand at that time. The increase in our gross margin from 2007 to 2008 was attributable to higher prices for standard solar modules in the first three quarters of 2008, coupled with a favorable Euro to U.S. dollar exchange rate over the same period. In the fourth quarter of 2008, module prices and our margins decreased due to a dramatic decrease in demand and an unfavorable Euro to U.S. dollar exchange rate.

Our gross margin decreased from 16.0% for the six months ended June 30, 2008 to 11.7% for the six months ended June 30, 2009. The decrease in gross margin was due primarily to a decrease in the average selling prices of standard solar modules and higher costs of solar cell and silicon material inventories acquired in 2008 that were used in the six months ended June 30, 2009. We believe that after the consumption of those high-cost inventories during the third quarter of 2009, our gross margin could rebound from the current level as prevailing raw material costs and average selling prices could contribute to an improved gross profit spread. We also believe that we may be able to further improve our gross margins through cost savings through research and development and increased production of our in-house ingot-to-wafer and wafer-to-cell manufacturing capacity.

Operating Expenses

Our operating expenses include selling expenses, general and administrative expenses and research and development expenses. Our operating expenses have increased in recent years as our business grew. We expect this trend to continue as our net revenues grow in the future.

Selling Expenses

Selling expenses consist primarily of salaries, transportation and customs expenses for delivery of our products, sales commissions for sales agents, advertising and promotional and trade show expenses. Since the second quarter of 2006, selling expenses have included share-based compensation expenses for options and restricted shares granted to our sales and marketing personnel. As we expand our business, we will increase our sales and marketing efforts and target potential customers in selected industry sectors in response to evolving industry trends. We expect our selling expenses to increase in the near term as we increase our sales volume, hire additional sales personnel, target more markets and initiate additional marketing programs to reach our goal of building a leading global brand. However, assuming our net revenues increase at the rate we expect, over time, we anticipate that our non-transportation selling expenses will decrease as a percentage of our net revenues while our transportation and customs expenses will increase alongside net revenues due to the cost of insurance and freight terms requested by our customers.

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, insurance fees and allowances for doubtful debts. Since the second quarter of 2006, our general and administrative expenses have included share-based compensation expenses for options and restricted shares granted to our general and administrative personnel, directors and consultants. We expect our general and administrative expense to increase as we hire additional personnel, upgrade our information technology infrastructure and incur expenses necessary to fund the anticipated growth of our business. However, assuming our net revenues increase at the rate we anticipate, we expect that our general and administrative expenses will decrease as a percentage of our net revenues.

Research and Development Expenses

Research and development expenses consist primarily of costs of raw materials used in our research and development activities, salaries and benefits for research and development personnel and prototype and equipment costs related to the design, development, testing and enhancement of our products and our silicon reclamation program. Since the second quarter of 2006, our research and development activities have included share-based compensation expenses for options and restricted shares granted to our research and development employees. We expense our research and development costs as incurred. To date, our research and development expenses have been minor. They are primarily related to our continuous efforts to improve our solar cell and module manufacturing processes and are not separated from our cost of revenues.

We expect to devote more efforts to research and development in the future and expect that our research and development expenses will increase as we hire additional research and development personnel, expand and diversify our products portfolio with innovative products, and devote more resources towards using new technologies and alternative materials to grow ingots, cut wafers and manufacture solar cells.

Share-based Compensation Expenses

Under our 2006 share incentive plan, we had outstanding a total of 1,978,030 options to purchase our common shares and 58,250 restricted shares as of June 30, 2009. For a description of the options and restricted shares 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 Remuneration — 2006 Share Incentive Plan” in our Form 20-F. Under Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment,” or SFAS 123R, we are required to recognize share-based compensation to employees as compensation expense in our statement of operations based on the fair value of equity awards on the date of the grant, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award.

As required by SFAS 123R, we have made an estimate of expected forfeitures and are recognizing compensation costs only for those equity awards expected 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 option and restricted share compensation charges may change based on changes to our actual forfeitures.

For each of the years ended December 31, 2007 and 2008, we recorded share-based compensation expenses of approximately $9.1 million. For the six months ended June 30, 2009, we recorded share-based compensation expenses of approximately $3.2 million, compared to approximately $4.5 million in the six months ended June 30, 2008. We have categorized these share-based compensation expenses in our (i) cost of revenues, (ii) selling expenses, (iii) general and administrative expenses and (iv) research and development expenses, depending on the job functions of the grantees to whom we granted the options or restricted shares. The following table sets forth, for the periods indicated, the allocation of our share-based compensation expenses both in absolute amount and as a percentage of total share-based compensation expenses.

	Years Ended December 31,						Six Months Ended June 30,			
	2006		2007		2008		2008		2009	
	(In thousands of US$, except for percentages)									
Share-based compensation expenses included in:										
Cost of revenues	$ 169	2.8%	$ 274	3.0%	$ 350	3.8%	$ 179	3.9%	$ 228	7.2%
Selling expenses	1,945	31.7	2,287	25.1	1,060	11.7	764	16.9	395	12.5
General and administrative expenses	3,942	64.1	6,277	69.0	7,306	80.3	3,434	75.7	2,254	71.4
Research and development expenses	89	1.4	264	2.9	386	4.2	158	3.5	280	8.9
Total share-based compensation expenses	$6,145	100.0%	$9,102	100.0%	$9,102	100.0%	$4,535	100.0%	$3,157	100.0%

We expect to incur additional share-based compensation as we expand our operations. For example, we anticipate that selling expenses will increase as we hire additional sales personnel to further expand our worldwide marketing activities in line with the expected growth of our operations.

Interest Expenses

Interest expenses consist primarily of interest expenses with respect to our short- and medium-term loans from Chinese commercial banks, non-cash charges on the convertible notes that we issued in 2006 to HSBC HAV2 (III) Limited, or HSBC, and JAFCO Asia Technology Fund II, or JAFCO, all of which were converted into common shares that same year, and the convertible notes we issued in 2007 privately to qualified institutional investors. In accordance with FSP APB 14-1, we recognized both the debt and equity components associated with the notes issued in 2007. The debt component was recognized at the fair value of a similar instrument that does not have an associated equity component, which initially amounted to $62.7 million. The equity component was recognized as the difference between the proceeds and the fair value of the debt component. Offering costs incurred for the issuance of the notes in 2007 amounted to $3.4 million, which were allocated to the debt and equity components in proportion to the allocation of the proceeds and were accounted for as debt issuance costs and equity issuance costs, respectively. The initial debt issuance costs amounted to $2.8 million. The debt discount (measured as the difference between the proceeds and the initial debt component plus debt issuance costs) is being amortized through interest expense over the period from December 10, 2007, the date of issuance, to December 24, 2012, the earliest redemption date, using the effective interest rate method, which was 11.4% for each of the years ended December 31, 2007 and 2008. We recorded nil and $1.2 million of amortization expense for the years ended December 31, 2007 and 2008, respectively, and $1.2 million and $17,325 for the six months ended June 30, 2008 and 2009, respectively.

As a result of our offer on May 27, 2008 to increase the conversion rate of our 6% senior convertible notes, we announced an increased conversion rate of 53.6061 in accordance with the terms of the conversion offer and issued 3,966,841 common shares in exchange for $74 million in principal amount of the notes on June 27, 2008. We undertook this conversion offer in order to save interest costs and decrease our debt to equity ratio. Upon conversion, we saved a half year's coupon interest on the $74 million of notes that were converted pursuant to the offer. In addition, upon the conversion of these convertible notes to common shares, $13.8 million in unamortized debt discount and debt issuance costs were reclassified to common shares.

Gain on Foreign Currency Derivatives

The gain on foreign currency derivatives recorded in our financial statements for 2008 and the six months ended June 30, 2009 was associated with economic hedging of the Euro against the U.S. dollar. Anticipating depreciation of the Euro against the U.S. dollar, we entered into a total of €103 million of collar transactions with a single put and call option with an investment bank, with settlement dates ranging from the fourth quarter of 2008 to the first quarter of 2009. The economic hedging policy was later expanded by the board and we entered into a total of €70 million of call forward contracts with an investment bank with settlement dates in the first half of 2009. During the six months ended June 30, 2009, we entered into an additional €80 million of call forward contracts with an investment bank and €30 million collar transactions with a commercial bank, with settlement dates in December

2009. During 2008, the gain on these foreign currency derivatives amounted to $14.5 million, which we recognized in our profit and loss account, while we recorded $7.0 million as a foreign currency derivative asset on our balance sheet as of December 31, 2008. During the six months ended June 30, 2009, the gain on these foreign currency derivatives amounted to $10.3 million, which we recognized in our profit and loss account. In comparison, we recorded $0.2 million as foreign currency derivative liabilities on the balance sheet as of June 30, 2009.

Gain On Debt Extinguishment.

We recorded a gain on debt extinguishment of $2.4 million for the six months ended June 30, 2008 compared to nil for the six months ended June 30, 2009. The gain on debt extinguishment for the six months ended June 30, 2008 represented the difference between the consideration attributed to the debt component and the sum of (i) the net carrying amount of the debt component and (ii) unamortized debt issuance costs due to the conversion of $74 million of 6% senior convertible notes in June 2008.

Debt Conversion Inducement Expenses

We recorded $10.2 million of debt conversion inducement expenses for the six months ended June 30, 2008 related to the conversion offer we made to the holders of our 6% senior convertible notes to induce those holders to convert their notes into common shares. We did not record any debt conversion inducement expenses for the six months ended June 30, 2009.

Foreign Exchange Gain (Loss)

Our foreign exchange gain decreased to $3.2 million for the six months ended June 30, 2009 from $7.7 million for the six months ended June 30, 2008, due to lower accounts receivable and lower appreciation range of the Euro in relation to the U.S. dollar for the six months ended June 30, 2009 compared to those for the six months ended June 30, 2008. We recorded a net currency exchange loss of $20.0 million for the year ended December 31, 2008, as compared to a net currency exchange gain of $2.7 million for the year ended December 31, 2007, due to the depreciation of the Euro in relation to the U.S. dollar since the first quarter of 2008. Our accounts receivable are mainly denominated in Euros, while the U.S. dollar is our functional and reporting currency.

Income Tax Expense

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

We are governed by the CBCA, a federal statute of Canada, are registered to carry on business in Ontario and are subject to both Canadian federal and Ontario provincial corporate income taxes. Our combined tax rates were 36.12%, 36.12%, 33.50% and 33.0% for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively.

PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles. Our major operating subsidiaries, namely CSI Solartronics, CSI Manufacturing, CSI Cells, CSI Luoyang and CSI Advanced, are subject to taxation in China. Our subsidiary CSI Solartronics has been recognized as a “new and high technology enterprise” and thus is entitled to a favorable 15% enterprise income tax rate, subject to renewal every three years. However, CSI Manufacturing currently enjoys a reduced enterprise income tax rate of 12.5% only until the end of 2009, when its tax holiday expires. CSI Cells and CSI Luoyang are also subject to a reduced enterprise income tax rate of 12.5% until the end of 2011, when their tax holidays expire. CSI Advanced is exempt from tax this year and will thereafter be subject to an EIT rate of 12.5% until the end of 2012, at which time its tax holiday will expire as well. As the preferential tax benefits currently enjoyed by our PRC subsidiaries expire, their effective tax rates will increase significantly.

The new EIT Law also provides that enterprises established outside China whose “de facto management bodies” are located in China are considered PRC tax residents and will generally be subject to a uniform 25% enterprise income tax rate as to their global income. Under the implementation regulations, the term “de facto management bodies” is defined as the bodies that have, in substance, overall management control over such aspects as the production and business, personnel, accounts and properties of an enterprise. Currently there are no detailed rules or precedents governing the procedures and specific criteria for determining a company’s de facto management bodies. 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 new EIT Law and, therefore, subject to the uniform 25% enterprise income tax rate as to our global income.

Under the new EIT Law and implementing regulations issued by the State Council, PRC withholding tax at the rate of 10% is generally applicable to interest and dividends payable to investors that are not “resident enterprises” in the PRC, to the extent that such interest or dividends have their sources within the PRC. We consider undistributed earnings of our PRC subsidiaries of approximately $63.6 million at June 30, 2009 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 continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

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

Revenue Recognition

We record sales of modules and silicon material when products are delivered and title has passed to the customers. We only recognize revenues when prices to the seller are fixed or determinable, and collectibility is reasonably assured. Revenues also include reimbursements of shipping and handling costs of products sold to customers. Sales agreements typically contain customary product warranties but do not contain any post-shipment obligations nor any return or credit provisions.

A majority of our contracts provide that products are shipped under free on board (FOB), ex-works or cost, insurance and freight (CIF) contractual terms. Under free on board (FOB) terms, we fulfill our obligation to deliver when the goods have passed over the ship’s rail at the named port of shipment. The customer bears all costs and risks of loss or damage to the goods from that point. Under ex-works terms, 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 cost, insurance and freight (CIF) terms, 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. Sales are recorded when the risk of loss or damage is transferred from us to the customers.

We enter into toll manufacturing arrangements in which we receive wafers and return finished modules. We recognize a service fee as revenue when the processed modules are delivered.

Warranty Cost

Our solar modules and products are typically sold with up to a two-year guarantee for defects in materials and workmanship and 10-year and 25-year warranties against specified declines in the initial minimum power generation capacity at the time of delivery. We have the right to repair or replace solar modules, at our option, under the terms of the warranty policy. We maintain warranty reserves to cover potential liabilities that could arise under these guarantees and warranties. Due to limited warranty claims to date, we accrue the estimated costs of warranties based on an assessment of our competitors' accrual history, industry-standard accelerated testing, estimates of failure rates from our quality review, and other assumptions that we believe to be reasonable under the circumstances. Actual warranty costs are accumulated and charged against the accrued warranty liability. To the extent that accrual warranty costs differ from the estimates, we will prospectively revise our accrual rate.

Impairment of Long-lived Assets

We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, we measure impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we will recognize an impairment loss based on the fair value of the assets. There was no impairment charge recognized during the years ended December 31, 2006, 2007 and 2008, or the six months ended June 30, 2008 and 2009.

Allowance for Doubtful Accounts

We conduct credit evaluations of customers and generally do not require collateral or other security from our customers. We also purchased credit insurances for most of our accounts receivable with a recovery range from 70% to 90% of the invoices amount. We establish an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers. As of December 31, 2007 and 2008 and June 30, 2009, our allowances for doubtful accounts amounted to $376,178, $5,605,983 and $5,090,595, respectively. We perform ongoing credit evaluations of the financial condition of our suppliers of solar cells, solar wafers and silicon raw materials. We generally do not require collateral or security against advances to suppliers, as they tend to be recurring supply partners. However, we maintained reserves for potential credit losses for advances to suppliers as of December 31, 2007 and 2008 and June 30, 2009, amounting to nil, $2,341,685 and $2,223,824, respectively.

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 any overhead that we incur in bringing the inventories to their present location and condition.

Adjustments are recorded to write down the cost of obsolete and excess inventories to the estimated market value based on historical and forecast demand. The inventory write-downs were $274,947, $482,544 and $23,784,578 for the years ended December 31, 2006, 2007 and 2008, respectively. Changes in our inventory write-downs increased by $2,012,191 in the six months ended June 30, 2008 and decreased by $6,875,177 in the six months ended June 30, 2009. The inventory write-downs in 2008 resulted from of a write-down of inventory following the sharp fall in the market value of silicon materials in the fourth quarter of 2008. The decrease in inventory write-downs in the first half of 2009 was due primarily to the written-down inventories that were consumed and included in our cost of revenues in the first half of 2009.

We outsource portions of our manufacturing process, including converting silicon into ingots, cutting ingots into wafers, and converting wafers into solar cells, to various third-party manufacturers. These outsourcing arrangements may or may not include transfer of title of the raw material inventory (silicon, ingots or wafers) to the third-party manufacturers. Such raw materials are recorded as raw materials inventory when purchased from suppliers.

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

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

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 by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on the characteristics of the underlying assets and liabilities, or the expected timing of their use when they do not relate to a specific asset or liability.

The Financial Accounting Standard Board, or FASB, issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We adopted the provisions of FIN 48 on January 1, 2007 and recognized a $612,199 increase in the liability for uncertain tax positions, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

Share-based compensation

We account for share-based compensation in accordance with SFAS No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R. SFAS 123R requires us to use a fair-value based method to account for share-based compensation. Accordingly, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. Our option plans are described more fully in Note 18 to our consolidated financial statements included elsewhere in this current report on Form 6-K.

Recently Issued Accounting Pronouncements:

In June 2009, the FASB issued SFAS No. 166, "*Accounting for Transfers of Financial Assets-an amendment of FASB Statement No. 140.*" The statement improves the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. We will incorporate the requirements on January 1, 2010.

In June 2009, the FASB issued SFAS No. 167, "*Amendments to FASB Interpretation No. 46(R)*," or SFAS 167, which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. SFAS 167 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. SFAS 167 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. SFAS 167 also requires additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. SFAS 167 is effective for fiscal years beginning after November 15, 2009. We do not expect that the adoption of SFAS 167 will have an impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "*The 'FASB Accounting Standards Codification' and the Hierarchy of Generally Accepted Accounting Principles*," or SFAS 168. SFAS 168 establishes the FASB Accounting Standards Codification, or Codification, which officially commenced on July 1, 2009, to become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. The subsequent issuances of new standards will be in the form of Accounting Standards Updates that will be included in the Codification. Generally, the Codification is not expected to change U.S. GAAP. All other accounting literature excluded from the Codification will be considered nonauthoritative. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Effective July 1, 2009, we adopted SFAS 168 on our financial statement disclosures as all future references to authoritative accounting literature will be referenced in accordance with the Codification.

Results of Operations

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

	Years Ended December 31,						Six Months Ended June 30,			
	2006		2007		2008		2008		2009	
	(In thousands of US$, except percentages)									
Net revenues	$68,212	100%	$302,798	100%	$705,006	100%	$383,820	100%	$163,641	100%
Cost of revenues	55,872	81.9	279,022	92.1	633,999	89.9	322,509	84.0	144,456	88.3
Gross profit	12,340	18.1	23,776	7.9	71,007	10.1	61,311	16.0	19,185	11.7
Operating expenses:										
Selling expenses	2,908	4.3	7,531	2.5	10,608	1.5	5,357	1.4	5,110	3.1
General and administrative expenses	7,924	11.6	17,204	5.7	34,510	4.9	11,911	3.1	10,928	6.7
Research and development expenses	398	0.6	998	0.3	1,825	0.3	749	0.2	1,000	0.6
Total operating expenses	11,230	16.5	25,733	8.5	46,943	6.7	18,017	4.7	17,038	10.4
Income (loss) from operations	1,110	1.6	(1,957)	(0.6)	24,064	3.4	43,294	11.3	2,147	1.3
Other income (expenses):										
Interest expenses	(2,194)	(3.2)	(2,311)	(0.8)	(12,201)	(1.7)	(6,332)	(1.6)	(4,167)	(2.5)
Interest income	363	0.5	562	0.2	3,531	0.5	161	0.0	3,412	2.1
Loss on change in fair value of derivatives related to convertible notes	(8,187)	(12.0)	—	—	—	—	—	—	—	—
Gain on debt extinguishment	—	—	—	—	2,430	0.3	2,430	0.6	—	—
Debt conversion inducement expenses	—	—	—	—	(10,170)	(1.4)	(10,170)	(2.6)	—	—
Gain on foreign currency derivatives	—	—	—	—	14,455	2.0	—	—	10,316	6.3
Foreign exchange gain (loss)	(481)	(0.7)	2,688	0.9	(19,989)	(2.8)	7,693	2.0	3,162	1.9
Other net	391	0.6	679	0.2	—	—	—	—	—	—
Income (loss) before taxes	(8,998)	(13.2)	(339)	(0.1)	2,120	0.3	37,076	9.7	14,870	9.1
Income tax benefit (expense)	(432)	(0.6)	164	—	(9,654)	(1.4)	(6,428)	(1.7)	(1,983)	(1.2)
Net income (loss)	$ (9,430)	(13.8)	$ (175)	(0.1)	$ (7,534)	(1.1)	$ 30,648	8.0%	$ 12,887	7.9%

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Net Revenues. Our net revenues decreased 57.4%, or $220.2 million, from $383.8 million for the six months ended June 30, 2008 to $163.6 million for the six months ended June 30, 2009. This decrease was primarily due to a decrease in the sales of our solar module products, from $376.5 million for the six months ended June 30, 2008 to $163.5 million for the six months ended June 30, 2009.

The volume of our solar module products sold decreased from 88.9 MW for the six months ended June 30, 2008 to 66.2 MW for the six months ended June 30, 2009. This decrease was attributable to the decline in market demand caused by the global economic downturn. In addition, the average selling price of standard solar modules decreased from $4.20 per watt for the six months ended June 30, 2008 to $2.47 per watt for the six months ended June 30, 2009.

Cost of Revenues. Our cost of revenues decreased 55.2%, or $178.1 million, from $322.5 million for the six months ended June 30, 2008 to $144.4 million for the six months ended June 30, 2009. This decrease was due primarily to the decrease in the volume of our sales of solar module products and the reduction in market prices of silicon materials such as wafers and cells. As a percentage of our total net revenues, cost of revenues increased from 84.0% for the six months ended June 30, 2008 to 88.3% for the six months ended June 30, 2009.

Gross Profit. As a result of the foregoing, our gross profit decreased 68.7%, or $42.1 million, from $61.3 million for the six months ended June 30, 2008 to $19.2 million for the six months ended June 30, 2009. Our gross margin decreased from 16.0% for the six months ended June 30, 2008 to 11.7% for the six months ended June 30, 2009. The decrease in gross margin was due primarily to (i) the decrease in the average selling price of standard solar modules from $4.20 per watt for the six months ended June 30, 2008 to $2.40 per watt for the six months ended June 30, 2009, and (ii) higher costs of solar cell and silicon material inventories acquired in 2008 that were used in the six months ended June 30, 2009.

Operating Expenses. Our operating expenses decreased 5.4%, or $1.0 million, from $18.0 million for the six months ended June 30, 2008 to $17.0 million for the six months ended June 30, 2009. This decrease was due primarily to decreases in selling expenses and general and administrative expenses, partially offset by an increase in our research and development expenses, as discussed below. Operating expenses as a percentage of our total net revenues increased from 4.7% for the six months ended June 30, 2008 to 10.4% for the six months ended June 30, 2009.

Selling Expenses. Our selling expenses decreased 4.6%, or $0.2 million, from $5.3 million for the six months ended June 30, 2008 to $5.1 million for the six months ended June 30, 2009. This decrease was due primarily to lower export related fees and freight charges as a result of decreased sales volumes. Selling expenses as a percentage of our total net revenues increased from 1.4% for the six months ended June 30, 2008 to 3.1% for the six months ended June 30, 2009.

General and Administrative Expenses. Our general and administrative expenses decreased 8.3%, or $1.0 million, from $11.9 million for the six months ended June 30, 2008 to $10.9 million for the six months ended June 30, 2009, primarily due to lower share-based compensation expenses. As a percentage of our total net revenues, general and administrative expenses increased from 3.1% for the six months ended June 30, 2008 to 6.7% for the six months ended June 30, 2009.

Research and Development Expenses. Our research and development expenses increased 33.5%, or $0.3 million, from $0.7 million for the six months ended June 30, 2008 to $1.0 million for the six months ended June 30, 2009, primarily due to the opening of our high efficiency cell research center and increased research and development efforts. We expect our expenditures for research and development efforts to increase significantly in the remainder of 2009 as a result of our high efficiency cell research center, where we will develop technologies related to new types of cells and other future products.

Interest Expense. Our interest expenses decreased 34.2%, or $2.2 million, from $6.3 million for the six months ended June 30, 2008 to $4.1 million for the six months ended June 30, 2009, due to the conversion of $74.0 million of our 6% senior convertible notes to our common shares in June 2008. Interest expense for the six months ended June 30, 2009 primarily arose from short and long-term bank loans to fund working capital purposes.

Gain On Debt Extinguishment. We recorded a gain on debt extinguishment of $2.4 million for the six months ended June 30, 2008 compared to nil for the six months ended June 30, 2009. The gain on debt extinguishment for the six months ended June 30, 2008 represented the difference between the consideration attributed to the debt component and the sum of (i) the net carrying amount of the debt component and (ii) unamortized debt issuance costs due to the conversion of $74 million of 6% senior convertible notes in June 2008.

Debt Conversion Inducement Expenses. We recorded $10.2 million of debt conversion inducement expenses for the six months ended June 30, 2008 related to the offer we made to the holders of our 6% senior convertible notes to induce those holders to convert notes into common shares. We did not incur any such expenses during the six months ended June 30, 2009.

Gain On Foreign Currency Derivatives. We recorded a gain on foreign currency derivatives of $10.3 million for the six months ended June 30, 2009 compared to nil for the six months ended June 30, 2008, resulting from a gain on an economic hedge that we established on our Euro denominated accounts receivable, by means of foreign currency collars and forward contracts.

Foreign Exchange Gain. Our foreign exchange gain decreased to $3.2 million for the six months ended June 30, 2009 from $7.7 million for the six months ended June 30, 2008. This decrease was due to lower accounts receivable and lower appreciation range of the Euro in relation to the U.S. dollar for the six months ended June 30, 2009 compared to those for the six months ended June 30, 2008. Our accounts receivable are mainly denominated in Euros, while the U.S. dollar is our functional and reporting currency.

Income Tax Expense. Our income tax expense decreased 69.2%, or $4.4 million, from $6.4 million for the six months ended June 30, 2008 to $2.0 million for the six months ended June 30, 2009, primarily due to lower pre-tax income for the six months ended June 30, 2009.

Net Income. As a result of the cumulative effect of the above factors, our net income decreased 58.0%, or $17.7 million, from $30.6 million for the six months ended June 30, 2008 to $12.9 million for the six months ended June 30, 2009.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Net Revenues. Our total net revenues increased 133% from $302.8 million for the year ended December 31, 2007 to $705.0 million for the year ended December 31, 2008. The increase in net revenues was primarily due to increases in the sales of our solar module products, from $282.4 million for the year ended December 31, 2007 to $692.3 million for the year ended December 31, 2008.

The volume of our solar module products sold increased from 83.4 MW for the year ended December 31, 2007 to 166.5 MW for the year ended December 31, 2008. The significant increase in the volume of our solar module products sold was attributable to strong demand from Spain and Germany, our two largest markets. Some of the demand from Spain was accelerated to qualify for a government incentive program that was scheduled to expire on September 30, 2008. In addition, the average selling price of standard solar modules increased from $3.75 per watt in 2007 to $4.23 per watt in 2008.

Cost of Revenues. Our cost of revenues increased from $279.0 million in 2007 to $634.0 million in 2008. The increase in our cost of revenues was due primarily to the increase in the volume of our sales of solar module products. As a percentage of our total net revenues, cost of revenues decreased from 92.1% for the year ended December 31, 2007 to 89.9% for the year ended December 31, 2008.

Gross Profit. As a result of the foregoing, our gross profit increased from $23.8 million for the year ended December 31, 2007 to $71.0 million for the year ended December 31, 2008. Our gross margin increased from 7.9% for the year ended December 31, 2007 to 10.1% for the year ended December 31, 2008. We achieved gross margins in excess of 15% for each of the first three quarters of 2008, but the inventory write-down and sales price reductions in the fourth quarter brought our gross margin for the entire year back down to 10.1 %.

Operating Expenses. Our operating expenses increased by 81.8% from $25.8 million for the year ended December 31, 2007 to $46.9 million for the year ended December 31, 2008. The increase in our operating expenses was due primarily to an increase in our general and administrative expenses and selling expenses, in line with our increased sales volume. The general and administrative expenses included a $7.4 million allowance for doubtful accounts. Operating expenses as a percentage of our total net revenues decreased from 8.5% for the year ended December 31, 2007 to 6.7% for the year ended December 31, 2008.

Selling Expenses. Our selling expenses increased from $7.5 million for the year ended December 31, 2007 to $10.6 million for the year ended December 31, 2008. Selling expenses as a percentage of our total net revenues decreased from 2.5% for the year ended December 31, 2007 to 1.5% for the year ended December 31, 2008. The increase in our selling expenses was due primarily to increases in freight charges, advertising and promotion expenses and sales commissions.

General and Administrative Expenses. Our general and administrative expenses increased by 100.6% from $17.2 million for the year ended December 31, 2007 to $34.5 million for the year ended December 31, 2008, primarily due to a significant increase in allowance for doubtful accounts, an increase in head count, depreciation and professional fees. As a percentage of our total net revenues, general and administrative expenses decreased from 5.7% for 2007 to 4.9% for 2008. The general and administrative expenses included a $7.4 million allowance for doubtful accounts as of December 31, 2008, as compared to $0.5 million as of December 31, 2007.

Research and Development Expenses. Our research and development expenses increased from $1.0 million for the year ended December 31, 2007 to $1.8 million for the year ended December 31, 2008, due to increased efforts in the development of new products. We expect our expenditures for research and development efforts to increase significantly in 2009 as we have set up a solar cell research laboratory where we will undertake technology development related to future product offerings.

Interest Expenses. Our interest expenses increased from $2.3 million for the year ended December 31, 2007 to $12.2 million for the year ended December 31, 2008. The interest expenses for the year ended December 31, 2008 were in connection with short and long-term bank loans, interest and amortization of debt discount on our convertible notes and interest on a short-term loan from Dr. Shawn Qu. We believe that we will continue to enter into new commercial bank loans to further expand our business in 2009, and we expect that our interest expenses will increase as a result.

Gain On Debt Extinguishment. We recorded a gain on debt extinguishment of $2.4 million for the year ended December 31, 2008 compared to nil for the year ended December 31, 2007. The gain on debt extinguishment for the year ended December 31, 2008 represented the difference between the consideration attributed to the debt component and the sum of (i) the net carrying amount of the debt component and (ii) unamortized debt issuance costs due to the conversion of $74 million of 6% senior convertible notes in June 2008.

Debt Conversion Inducement Expenses We recorded $10.2 million of debt conversion inducement expenses for the year ended December 31, 2008 related to the conversion offer we made to the holders of our 6% Senior Convertible Notes to induce those holders to convert their notes into common shares.

Gain On Foreign Currency Derivatives. We recorded a gain on foreign currency derivatives of $14.5 million for the year ended December 31, 2008 compared to nil for the year ended December 31, 2007. This represented a gain resulting on an economic hedge that we established on our Euro denominated accounts receivable through foreign currency collars and forward contracts.

Foreign Exchange Gain (Loss). We recorded a net currency exchange loss of $20.0 million for the year ended December 31, 2008, compared to a net currency exchange gain of $2.7 million for the year ended December 31, 2007, due to the depreciation of the Euro in relation to the U.S. dollar and our accounts receivable are mainly denominated in Euros, while the U.S. dollar is our functional and reporting currency.

Income Tax Benefit (Expense). Our income tax expense was $9.7 million for the year ended December 31, 2008, compared to a benefit of $0.2 million for the year ended December 31, 2007, in part due to a significant increase in unrecognized tax benefits under FIN 48, relating to transfer pricing.

Net Loss. As a result of the cumulative effect of the above factors, we recorded a $7.5 million net loss for the year ended December 31, 2008, compared to a $0.2 million net loss for the year ended December 31, 2007.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Net Revenues. Our total net revenues increased 344% from $68.2 million for the year ended December 31, 2006 to $302.8 million for the year ended December 31, 2007. The significant increase in net revenues was primarily generated from an increase in the sale of our solar module products from $59.8 million for the year ended December 31, 2006 to $282 million for the year ended December 31, 2007. As a percentage of total revenues, solar module product sales increased from 88% to 93%, with remaining revenue figures attributable to OEM/tolling and third-party silicon material sales.

The volume of our solar module products sold increased from 14.9 MW for the year ended December 31, 2006 to 83.4 MW for the year ended December 31, 2007. The significant increase in the volume of our solar module products sold was driven by several factors, including favorable incentive programs that stimulated demand for our products in our main target markets of Germany, Spain and Italy, establishment of customer relationships with several large solar integrators in our target markets and an increase in module production capacity to fulfill this demand.

Cost of Revenues. Our cost of revenues increased from $55.9 million in 2006 to $279 million in 2007. The increase in our cost of revenues was due primarily to a significant increase in the quantity of silicon, solar wafers and solar cells needed to produce an increased output of our standard solar modules and the rising prices of silicon feedstock and solar wafers and cells arising from the industry-wide shortage of high-purity silicon. As a percentage of our total net revenues, cost of revenues increased from 81.9% for the year ended December 31, 2006 to 92.1% for the year ended December 31, 2007.

Gross Profit. As a result of the foregoing, our gross profit increased from $12.3 million for the year ended December 31, 2006 to $23.8 million for the year ended December 31, 2007. Our gross margin decreased from 18.1% for the year ended December 31, 2006 to 7.9% for the year ended December 31, 2007. The decrease in gross margin was due primarily to the rising prices of silicon feedstock, solar wafers and solar cells arising from the industry-wide shortage of high-purity silicon and a decrease in average selling prices for our solar module products.

Operating Expenses. Our operating expenses increased by 130% from $11.2 million for the year ended December 31, 2006 to $25.8 million for the year ended December 31, 2007. The increase in our operating expenses was due primarily to an increase in our general and administrative expenses and selling expenses, a result of our corresponding net revenue increase of 344% from the previous year. Operating expenses as a percentage of our total net revenue decreased from 16.5% for the year ended December 31, 2006 to 8.5% for the year ended December 31, 2007.

Selling Expenses. Our selling expenses increased from $2.9 million for the year ended December 31, 2006 to $7.5 million for the year ended December 31, 2007. Selling expenses as a percentage of our total net revenues decreased from 4.3% for the year ended December 31, 2006 to 2.5% for the year ended December 31, 2007. The increase in our selling expenses was due primarily to (i) the increase in share-based compensation expenses that we incurred in connection with our grant of share options and restricted shares to sales and marketing personnel, (ii) the increase in freight charges and export processing fees caused by our increasing use of cost, insurance and freight sales terms in 2007 comparing to mostly free-on-board or ex-work sales terms in 2006 and (iii) an increase in salaries and benefits as we hired additional sales personnel to handle our increased sales volume.

General and Administrative Expenses. Our general and administrative expenses increased by 117.7% from $7.9 million for the year ended December 31, 2006 to $17.2 million for the year ended December 31, 2007, primarily due to (i) the increase in share-based compensation expenses that we incurred in connection with our grant of share options and restricted shares to general and administrative employees and (ii) increases in salaries and benefits for our administrative and finance personnel as we hired additional personnel in connection with the growth of our business. As a percentage of our total net revenues, general and administrative expenses decreased from 11.6% for 2006 to 5.7% for 2007, primarily as a result of the greater economies of scale that we achieved in 2007.

Research and Development Expenses. Our research and development expenses increased significantly from $0.4 million for the year ended December 31, 2006 to $1.0 million for the year ended December 31, 2007, due to increased efforts to develop new products and improve our technology.

Interest Expenses. We incurred interest expenses of approximately $2.2 million for the year ended December 31, 2006, compared to $2.3 million for the year ended December 31, 2007. The interest expenses of $2.2 million for the year ended December 31, 2006 were in connection with (i) the convertible notes that we sold to HSBC and JAFCO in November 2005 and March 2006 and which were outstanding before July 1, 2006, (ii) non-cash amortization of discount on debts in relation to the convertible notes issued to HSBC and JAFCO and (iii) interest payable for our various short-term borrowings before our initial public offering in November 2006. The convertible notes were converted on July 1, 2006. As we grew our business, we entered into additional commercial bank loans and issued new convertible notes in 2007.

Foreign Exchange Gain (Loss). We recorded a net currency exchange gain of $2.7 million for the year ended December 31, 2007, compared to a net currency exchange loss of $0.5 million for the year ended December 31, 2006 due to the appreciation of the Euro against the U.S. dollar. Our accounts receivable are mainly denominated in Euros, while the U.S. dollar is our functional and reporting currency.

Income Tax Benefit (Expense). Our income tax expense was $0.4 million for the year ended December 31, 2006, compared to a benefit of $0.2 million for the year ended December 31, 2007, in part due to the tax benefit from the amortization of an increase in deferred tax assets associated with expenses related to our initial public offering and convertible note offering in December 2007, based on Canadian tax regulations.

Net Loss. As a result of the cumulative effect of the above factors, we recorded net loss of $0.2 million for the year ended December 31, 2007, compared to a $9.4 million net loss for the year ended December 31, 2006.

B. Liquidity and Capital Resources

Cash Flows and Working Capital

In 2008 and the for six months ended June 30, 2009, we financed our operations primarily through cash flows from operations and short and long-term borrowings. As of June 30, 2009, we had $86.8 million in cash and cash equivalents. Our cash and cash equivalents primarily consist of cash on hand and demand deposits.

As of June 30, 2009, our bank lines had an aggregate capacity of $293.0 million. As of June 30, 2009, approximately $30.7 million of long-term borrowings, of which $14.6 million was secured by our plant and equipment, and $145.6 million of short-term borrowings, of which $26.1 million was secured by our land and buildings, $14.6 million was secured by our plant and equipment, and $4.1 million was secured by cash deposits, were drawn under the bank lines. The long-term borrowings mature at various days during 2010, 2011 and 2014 and bear interest at rates of between 0% and 7.56% per annum. The short-term borrowings mature at various times during 2009 and 2010 and bear interest at rates of between 1.11% and 7.56% per annum. Our bank lines contain no specific extension terms but we have historically 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 June 30, 2009, $116.7 million of short-term borrowings with terms of less than one year were available for drawdown under the bank lines at interest rates to be negotiated by the parties. As of June 30, 2009, no long-term borrowings remained available under the bank lines.

We have significant working capital requirements due to our high sales volume and inventory levels and extended payment terms for our accounts receivable. Although our total advances to suppliers, including both short-term and long-term advances, decreased from $67.7 million as of December 31, 2008 to $63.2 million as of June 30, 2009, working capital and financing for the purchase of silicon feedstock remain critical to the growth of our business. While we also require some of our customers to make prepayments, there is typically a lag between the time of our prepayment for solar wafers and cells and silicon raw materials and the time that our customers make prepayments.

We expect that our accounts receivable and inventories, two of the principal components of our current assets, will continue to increase as our net revenues increase. We require prepayments in cash of between 10% and 30% of the purchase price from some of our customers, and require many of them to pay the balance of the purchase price by letters of credit at sight or 30 days prior to delivery. In some cases, we extend short-term credit to customers after delivery. The prepayments are recorded as current liabilities under advances from customers, and amounted to $3.6 million as of December 31, 2008 and $4.1 million as of June 30, 2009. Until the letters of credit are drawn in accordance with their terms, or we collect sales credit, the balance of the purchase price is recorded as accounts receivable.

As market demand changes and we continue to diversify our geographical markets, we have increased and may continue to increase credit term sales to creditworthy customers after carefully reviewing their credit standings and our obtaining export credit insurance from the China Export Credit Insurance Corporation. Inventories have increased significantly due to the rapid growth of our operations and business. In addition, lower than anticipated sales volumes in the fourth quarter of 2008 and the first quarter of 2009 caused us to carry some of our inventories for a longer than usual period.

Allowance for doubtful accounts for accounts receivable was $5.6 million as of December 31, 2008 and $5.1 million as of June 30, 2009. Allowance for doubtful accounts for accounts receivable primarily represented specific allowances made for major customers and suppliers from whom recoverability was in doubt because they had defaulted on payment and had no firm repayment schedule or collateral. We have typically reduced our allowance for doubtful accounts by purchasing credit insurance for most of these accounts receivables. As a result, we only need to make allowance for doubtful accounts for accounts receivable in the range of 10% to 30% of the outstanding balances.

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

	Years Ended December 31,			Six-months Ended June 30,	
	2006	2007	2008	2008	2009
			(In thousands of US$)		
Net cash provided by (used in) operating activities	$(46,276)	$ (80,224)	$ 3,193	$ (28,568)	$ (12,693)
Net cash used in investing activities	(7,770)	(42,483)	(125,762)	(55,066)	(157,603)
Net cash provided by financing activities	88,307	124,828	201,356	109,128	141,436
Net increase (decrease) in cash and cash equivalents	34,631	(3,244)	77,994	27,471	(28,829)
Cash and cash equivalents at the beginning of the year	6,280	40,911	37,667	37,667	115,661
Cash and cash equivalents at the end of the year	40,911	37,667	115,661	65,138	86,832

Operating Activities

Net cash used in operating activities was $12.7 million for the six months ended June 30, 2009, due primarily to a $63.6 million increase in accounts receivable, a $8.0 million increase in inventories and a $4.8 million increase in prepaid expenses and other current assets, partially offset by a $29.6 million increase in accounts payable and a $4.7 million decrease in advances to suppliers. The increases in accounts receivable, inventories and prepaid expenses were due primarily to longer payment terms for accounts receivable from our customers, increased inventories for our sales in the third quarter of 2009 and increased custom duty guarantee deposits that we were required to make for our exported products.

Net cash used in operating activities was $28.6 million for the six months ended June 30, 2008, due primarily to a $80.9 million increase in accounts receivable, a $16.7 million increase in inventories and a $4.1 million increase in value added tax recoverables, partially offset by a $9.8 million increase in other current liabilities and a $8.8 million increase in advances from customers. The increases in accounts receivable, inventories and value added tax recoverables were due primarily to our increased sales volume and increased raw materials purchased.

Net cash used in operating activities of $80.2 million in 2007 changed sharply to net cash provided by operating activities of $3.2 million in 2008, due in part to a decrease in accounts receivable, cash received from derivatives and an increase in accounts payable, partially offset by increases in advances to suppliers, inventories and prepayment of land use rights. Net cash used in operating activities increased from $46.3 million in 2006 to $80.2 million in 2007, primarily due to increases in advance payments to suppliers of solar wafers as well as the rapid growth of our solar module operation and business.

Investing Activities

Net cash used in investing activities was $157.6 million for the six months ended June 30, 2009, due to a $137.9 million increase in restricted cash and our $19.7 million purchase of property, plant and equipment. The increase in restricted cash was due to an interest rate arbitrage arrangement that required a cash deposit, and our purchase of property, plant and equipment was related to the expansion of our module and cell production capacities and our research and development facilities.

Net cash used in investing activities was $55.1 million for the six months ended June 30, 2008, due to our $37.6 million purchase of property, plant and equipment and a $17.5 million increase in restricted cash. These increases were due to our increased capital expenditures to expand the production capacity of our ingot, wafer, module and cell production facilities.

Net cash used in investing activities increased from $42.5 million in 2007 to $125.8 million in 2008, primarily due to our expansion of ingot, wafer and module production capacity and acquisition of equity investments. Net cash used in investing activities increased from $7.8 million in 2006 to $42.5 million in 2007, primarily due to our expansion of module production capacity and our expansion into internal solar cell manufacturing, a higher capital expenditure business.

Financing Activities

Net cash provided by financing activities was $141.4 million for the six months ended June 30, 2009, primarily as a result of proceeds of $187.1 million from short-term borrowings and $14.6 million from long-term borrowings, partially offset by our repayment of $60.4 million of short-term borrowings.

Net cash provided by financing activities was $109.1 million for the six months ended June 30, 2008, primarily as a result of proceeds of $104.9 million from short-term borrowings, $30.0 million from related party borrowings and $29.4 million from long-term borrowings, partially offset by our repayment of $56.6 million of short-term borrowings.

Net cash provided by financing activities increased from $124.8 million in 2007 to $201.4 million in 2008, primarily as a result of proceeds from our follow-on public offering of common shares in July 2008 and from long and short-term bank borrowings. Net cash provided by financing activities increased from $88.3 million in 2006 to $124.8 million in 2007, primarily as a result of the proceeds from our issuance of $75.0 million principal amount convertible notes in December 2007 and short-term borrowings.

We believe that our current cash and cash equivalents, anticipated cash flow from operations and available credit lines from commercial banks will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures for at least the next 12 months. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. The availability of commercial loans from Chinese commercial banks may also be affected by administrative policies of the PRC government, which in turn may affect our plans for business expansion. If our existing cash or access to additional capital through bank borrowings are insufficient to meet our requirements, we may seek to sell additional equity securities or debt securities or borrow from other sources. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all.

The sale of additional equity securities, including convertible debt securities, would dilute our shareholders’ interests. The incurrence of debt would divert cash from 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 be materially adversely affected.

Capital Expenditures

We made capital expenditures of $7.1 million, $42.0 million and $104.8 million in 2006, 2007 and 2008, respectively, and $37.6 million and $19.7 million in the six months ended June 30, 2008 and 2009, respectively. Our capital expenditures were used primarily to expand our facilities and purchase equipment to expand our assembly lines for the production of solar modules, and to build facilities and purchase equipment to commence our solar ingot and wafer production and to expand our solar cell production and our research and development center. As of December 31, 2008, we have a total capital commitment of $55.7 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 and a staff welfare and bonus reserve. The general reserve is required to be made at not less than 10% of the profit after tax as determined under PRC GAAP. The staff welfare and bonus reserve is determined by our board of directors. The general reserve is used to offset future extraordinary losses.

Our PRC subsidiaries may, upon a resolution of the board of directors, convert the general reserve into capital. The staff welfare and bonus reserve is used for the collective welfare of the employees of the PRC subsidiaries. These reserves represent appropriations of the retained earnings determined under PRC law. In addition to the general reserve, our PRC subsidiaries are required to obtain approval from the local government authorities prior to distributing any registered share capital. Accordingly, both the appropriations to general reserve and the registered share capital of our PRC subsidiaries are considered as restricted net assets. These restricted net assets amounted to $51.6 million, $82.4 million and $178.3 million as of December 31, 2006, 2007 and 2008, respectively, and $179.1 million as of June 30, 2009.

C. Research and Development

We significantly expanded our research and development activities in 2008 and in the first half of 2009. We opened two new research and development centers with state-of-the-art equipment in 2008 and 2009, our solar cell research center and our photovoltaic reliability testing center. The solar cell research center is focused on the development of new high efficiency solar cells and low cost, high efficiency cell technology. The photovoltaic reliability testing center is focused on PV module and components testing and qualification as well as performance and reliability testing, tracking and analysis. As of June 30, 2009, we had 36 employees in research, product development and engineering.

Our research and development activities have generally emphasized the following areas:

- developing new methods and equipment for analysis and quality control of incoming materials (such as polysilicon/solar grade UMgSi silicon, wafers and cells);
- developing new technologies in ingot growth, wafer cutting, cell processing and module manufacturing that make use of low-cost alternative silicon materials such as solar grade silicon;
- improving the conversion efficiency of solar cells and developing new cell structures and technologies for high conversion efficiency;
- improving the manufacturing yield and reliability of solar modules and reducing manufacturing costs;
- testing, data tracking and analysis for module performance and reliability;
- designing and developing more efficient specialty solar modules and products to meet customer requirements; and
- silicon reclamation technologies which allow the manufacturing of solar cells using low-cost silicon feedstock.

Our research and development team, led by Dr. Shawn Qu, our founder, chairman, president and chief executive officer, Mr. Genmao Chen, our director of research and development, Dr. Lingjun Zhang, our general manager of CSI Cells, and Mr. Chengbai Zhou, our principal technical fellow for solar modules, has extensive experience in the solar power industry. Our research and development team works closely with our manufacturing team and our suppliers, partners and our 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:

Solar grade silicon materials technologies and high efficiency cell technologies. We began the mass production of solar grade silicon crystalline modules, namely e-Modules, in April 2008, and have been working on improving new technologies in ingot, wafer, cell and module manufacturing using solar grade silicon. We made significant progress in this area recently, and the production average efficiency for solar grade crystalline cell has increased to 15.0% as of the second quarter of 2009 from 13.3% as of mid-2008. With our continuous efforts to optimize solar grade silicon material preparation, ingot growth and wafer cutting, as well as cell processing, we anticipate additional increases in our solar grade silicon cell efficiency, and expect that with our new solar grade silicon cell design, our solar grade silicon cells could reach a conversion efficiency close to that of conventional multi-crystalline cells in the future. Meanwhile, by using our advanced solar cell pilot line and cell analysis equipment, we are working to improve regular polysilicon cell efficiency, production yield and to develop new high efficiency cell structures.

Solar module manufacturing technologies. With the opening of our Photovoltaic Reliability Testing Center, we intend to focus on developing state-of-the-art testing and diagnostic techniques that improve solar module production yield, efficiency, performance and durability.

Product development of specialty solar modules and products. We are expanding our product development capabilities for specialty solar modules and products to position ourselves for the expected growth in this area of the solar power market. For example, we are collaborating with a research institute in China to develop a concentrator module technology and a glass curtain wall company based in China to develop BIPV technology. In 2008, we completed a BIPV project in our Luoyang plant. We also supplied BIPV modules and other BIPV related design elements for a project for the Beijing Olympic Games.

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. We plan to hire additional engineering staff and increase investment in these areas.

Silicon reclamation technologies. We intend to continue to work on technological improvements to increase the efficiency of our silicon reclamation program, including increasing scrap silicon recovery yields. We are developing new technologies and designing equipment for refining certain scrap silicon materials and expanding on the types of materials that can be utilized to manufacture solar cells.

D. Trend Information

Other than as disclosed elsewhere in this current report on Form 6-K, 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 a 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, 2008:

	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			(In thousands of US$)		
Short-term debt obligations	$ 110,665	$ 110,665	$ —	$ —	$ —
Interest related to short-term debt(1)	2,366	2,366	—	—	—
Operating lease obligations	1,647	930	562	60	95
Purchase obligations(2)	4,613,134	352,049	1,393,142	1,513,056	1,354,887
Convertible notes(3)	1,540	60	120	120	1,240
Other long-term borrowing(4)	45,357	—	45,357	—	—

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	Payment Due by Period				
			(In thousands of US$)		
Interest related to long-term debt(5)	6,025	3,279	2,746	—	—
Total	$ 4,780,734	$ 469,349	$ 1,441,927	$ 1,513,236	$ 1,356,222

(1) Interest rates range from 2.63% to 7.47% per annum for short-term debt.

(2) Includes commitments to purchase production equipment in the amount of $55.7 million and commitments to purchase solar cells and silicon raw materials in the amount of $4,557.4 million.

(3) Assumes redemption of $1.0 million aggregate principal amount of 6.0% convertible senior notes due December 15, 2017. Assumes none of the convertible senior notes have been converted into ordinary shares. The holders of our convertible senior notes may require us to repurchase the convertible senior notes as early as December 2012. This figure also includes interest payable totaling $540,000 until December 5, 2017.

(4) The other long-term borrowing mainly consists of the following items: (i) commercial loans with China's Bank of Communication — these loans total $14.6 million, are secured and cover a two-and-a-half-year expansion plan (funds are available at various stages and with different terms and rates); and (ii) commercial loans with Bank of China — these loans total $29.3 million, are secured and cover a three-year expansion plan (funds are available at various stages and with different terms and rates).

(5) Interest rates range from 7.29% to 7.56% per annum for long-term borrowings.

The above table excludes income tax liabilities of $8.7 million recorded in accordance with FIN 48 because we are unable to reasonably estimate the timing of future payments of these liabilities due to uncertainties in the timing of the effective settlement of these tax positions. For additional information on FIN 48, see the notes to our consolidated financial statements, included herein.

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, 2008.

G. Safe Harbor

Our Form 20-F contains forward-looking statements that relate to future events, including our future operating results and conditions, our prospects and our future financial performance and condition, all of which are largely based on our current expectations and projections. The forward-looking statements are contained principally in the sections entitled "Item 3. Key Information — D. Risk Factors," "Item 4. Information on the Company" and "Item 5. Operating and Financial Review and Prospects." 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 other and similar expressions. Forward-looking statements involve inherent risks and uncertainties.

Known and unknown risks, uncertainties and other factors, may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. See "Item 3. Key Information — D. Risk Factors" in our Form 20-F for a discussion of some risk factors that may affect our business and results of operations. These risks are not exhaustive. Other sections of our Form 20-F may include additional factors that could adversely impact our business and financial performance. Moreover, because we operate in an emerging and evolving industry, new risk factors may emerge from time to time. It is not possible for our management to predict all risk factors, nor can we assess the impact of these factors on our business or the extent to which any factor, or combination of factors, may cause actual result to differ materially from those expressed or implied in any forward-looking statement.

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

- our expectations regarding the worldwide demand for electricity and the market for solar power;
- our beliefs regarding the importance of environmentally friendly power generation;
- our expectations regarding governmental support for the deployment of solar power;
- our beliefs regarding the future shortage or availability of the supply of high-purity silicon;
- our beliefs regarding the acceleration of adoption of solar power technologies and the continued growth in 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 UMgSi 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 beliefs regarding our securing adequate silicon and solar cell requirements to support our solar module production;
- our beliefs regarding the effects of environmental regulation;
- our beliefs regarding the changing competitive arena in the solar power industry;
- our future business development, results of operations and financial condition; and
- competition from other manufacturers of solar power products and conventional energy suppliers.

Our Form 20-F also contains data related to the solar power market in several countries. These market data, including market data from Solarbuzz, include projections that are based on a number of assumptions. The solar power market may not grow at the rates projected by the market data, or at all. The failure of the market to grow at the projected rates may materially and adversely affect our business and the market price of our common shares. In addition, the rapidly changing nature of the solar power market subjects any projections or estimates relating to the growth prospects or future condition of our market to significant uncertainties. If any one or more of the assumptions underlying the market data proves to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

CANADIAN SOLAR INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Canadian Solar Inc. and subsidiaries (the “Company”) as of December 31, 2007 and 2008, and the related consolidated statements of operations, stockholders’ equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2008, 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, 2007 and 2008 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, 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, present fairly in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2007, the Company adopted FASB Interpretation No. 48 “Accounting for Uncertainty in Income Taxes”.

As discussed in Note 20 to the consolidated financial statements, effective January 1, 2009, the Company adopted FASB Staff Position APB No. 14-1 “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)”, and retrospectively adjusted the 2008 and 2007 financial statements accordingly.

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, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 5, 2009 (not presented herein) expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu CPA Ltd.

Shanghai, China
June 5, 2009 (October 13, 2009 as to the effect of adoption of FASB Staff Position APB No. 14-1 “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)” described in Note 20)

CANADIAN SOLAR INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2007 $	December 31, 2008 $
ASSETS		
Current assets:		
Cash and cash equivalents	37,667,120	115,660,921
Restricted cash	1,625,555	20,621,749
Accounts receivable, net of allowance for doubtful accounts of $376,178 and $5,605,983 on December 31, 2007 and 2008, respectively	58,637,304	51,611,312
Inventories	70,920,927	92,682,547
Value added tax recoverable	12,246,989	15,899,703
Advances to suppliers	28,744,670	24,654,392
Foreign currency derivative assets	—	6,974,064
Prepaid expenses and other current assets	9,460,119	10,909,649
Total current assets	219,302,684	339,014,337
Property, plant and equipment, net	51,486,258	165,541,885
Deferred tax assets	978,968	6,965,503
Advances to suppliers	4,102,711	43,087,142
Prepaid land use right	1,616,011	12,782,147
Investment	—	3,000,000
Other non-current assets	135,548	263,281
TOTAL ASSETS	277,622,180	570,654,295
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	40,373,932	110,664,813
Accounts payable	8,250,826	29,957,188
Amounts due to related parties	208,718	93,641
Other payables	6,153,217	24,043,309
Advances from customers	1,962,024	3,570,883
Other current liabilities	2,264,499	4,332,229
Total current liabilities	59,213,216	172,662,063
Accrued warranty costs	3,878,755	10,846,719
Convertible notes	59,884,744	830,362
Long-term borrowings	17,866,203	45,357,340
Liability for uncertain tax positions	2,278,482	8,703,830
TOTAL LIABILITIES	143,121,400	238,400,314
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Common shares — no par value: unlimited authorized shares, 27,320,389 and 35,744,563 shares issued and outstanding at December 31, 2007 and 2008, respectively	97,454,214	395,153,795
Additional paid-in capital	34,636,199	(66,705,304)
Accumulated deficit	(3,570,175)	(11,104,036)
Accumulated other comprehensive income	5,980,542	14,909,526
Total stockholders' equity	134,500,780	332,253,981
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	277,622,180	570,654,295

See notes to consolidated financial statements.

CANADIAN SOLAR INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31,		
	2006	2007	2008
	$	$	$
Net revenues	68,212,256	302,797,671	705,006,356
Cost of revenues	55,871,959	279,022,155	633,998,620
Gross profit	12,340,297	23,775,516	71,007,736
Operating expenses:			
Selling expenses	2,908,675	7,530,970	10,607,562
General and administrative expenses	7,923,923	17,203,761	34,510,263
Research and development expenses	397,859	997,832	1,824,753
Total operating expenses	11,230,457	25,732,563	46,942,578
Income (Loss) from operations	1,109,840	(1,957,047)	24,065,158
Other income (expenses):			
Interest expense	(2,193,551)	(2,311,270)	(12,201,293)
Interest income	362,528	562,006	3,530,957
Loss on change in fair value of derivatives related to convertible notes	(8,186,500)	—	—
Gain on foreign currency derivative assets	—	—	14,454,814
Gain on debt extinguishment	—	—	2,429,524
Debt conversion inducement expense	—	—	(10,170,118)
Foreign exchange gain (loss)	(481,019)	2,688,448	(19,989,123)
Other — net	390,832	679,070	—
Income (Loss) before income taxes	(8,997,870)	(338,793)	2,119,919
Income tax benefit (expense)	(431,994)	163,514	(9,653,780)
Net loss	(9,429,864)	(175,279)	(7,533,861)
Loss per share — basic and diluted	$ (0.50)	$ (0.01)	$ (0.24)
Shares used in computation — basic and diluted	18,986,498	27,283,305	31,566,503

See notes to consolidated financial statements.

CANADIAN SOLAR INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Common Shares		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Total Comprehensive Income/(loss)
	Number	$	$	$	$	$	$
Balance at December 31, 2005	15,427,995	210,843	—	6,647,167	109,070	6,967,080	
Share-based compensation	—	—	6,144,879	—	—	6,144,879	—
Conversion of convertible notes	5,542,005	10,162,215	—	—	—	10,162,215	
De-recognition of conversion option derivative liability	—	—	10,928,031	—	—	10,928,031	
Issuance of ordinary shares, net of issuance cost	6,300,000	83,323,942	—	—	—	83,323,942	
Deferred tax on issuance cost of ordinary shares	—	3,605,391	—	—	—	3,605,391	
Forgiveness of payable to shareholders	—	—	260,987	—	—	260,987	
Net loss	—	—	—	(9,429,864)	—	(9,429,864)	(9,429,864)
Foreign currency translation adjustment	—	—	—	—	941,194	941,194	941,194
Balance at December 31, 2006	27,270,000	97,302,391	17,333,897	(2,782,697)	1,050,264	112,903,855	(8,488,670)
Adjustment for adoption of FIN 48	—	—	—	(612,199)	—	(612,199)	
Share-based compensation	—	—	9,101,792	—	—	9,101,792	
Exercise of stock options	50,389	151,823	—	—	—	151,823	
Recognition of equity component of convertible notes	—	—	8,200,510	—	—	8,200,510	
Net loss	—	—	—	(175,279)	—	(175,279)	(175,279)
Foreign currency translation adjustment	—	—	—	—	4,930,278	4,930,278	4,930,278
Balance at December 31, 2007	27,320,389	97,454,214	34,636,199	(3,570,175)	5,980,542	134,500,780	4,754,999
Share-based compensation	—	—	9,102,002	—	—	9,102,002	
Conversion of convertible notes	3,966,841	182,550,305	(110,443,505)	—	—	72,106,800	
Issuance of ordinary shares, net of issuance cost	3,500,000	110,659,864	—	—	—	110,659,864	
Deferred tax on issuance costs of ordinary shares	—	2,552,082	—	—	—	2,552,082	
Other	566,190	—	—	—	—	—	
Exercise of stock options	391,143	1,937,330	—	—	—	1,937,330	
Net loss	—	—	—	(7,533,861)	—	(7,533,861)	(7,533,861)
Foreign currency translation adjustment	—	—	—	—	8,928,984	8,928,984	8,928,984
Balance at December 31, 2008	35,744,563	395,153,795	(66,705,304)	(11,104,036)	14,909,526	332,253,981	1,395,123

See notes to consolidated financial statements.

CANADIAN SOLAR INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2006	2007	2008
	$	$	$
Operating activities:			
Net loss	(9,429,864)	(175,279)	(7,533,861)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	201,715	1,627,116	9,282,276
Loss on disposal of property, plant and equipment	11,072	23,806	5,126,852
Allowance for doubtful debts	62,318	456,570	7,445,028
Write down of inventories	274,947	482,544	23,784,578
Loss on change in fair value of derivatives related to convertible notes	8,186,500	—	—
Amortization of discount on debt	706,320	—	1,179,446
Gain on debt extinguishment	—	—	(2,429,524)
Unrealized gain on foreign currency derivative assets	—	—	(6,629,291)
Share-based compensation	6,144,879	9,101,792	9,102,002
Debt conversion inducement expense	—	—	10,170,118
Changes in operating assets and liabilities:			
Inventories	(27,812,410)	(27,099,561)	(39,994,140)
Accounts receivable	(14,836,433)	(37,675,531)	2,126,297
Value added tax recoverable	(1,396,221)	(9,479,472)	(2,671,677)
Advances to suppliers	(8,479,625)	(16,796,871)	(33,572,770)
Prepaid expenses and other current assets	(1,861,085)	(4,847,423)	783,021
Accounts payable	2,361,064	719,126	19,685,549
Other payables	672,320	2,986,846	2,369,498
Advances from customers	324,890	(1,822,752)	1,367,209
Amounts due to related parties	(282,528)	60,082	(119,706)
Accrued warranty costs	530,826	2,979,414	6,893,681
Other current liabilities	(868,923)	906,584	1,893,489
Prepaid land use right	(1,080,232)	(429,637)	(10,508,489)
Liability for uncertain tax positions	—	1,666,283	6,425,348
Deferred taxes	294,296	(2,907,625)	(982,236)
Net cash provided by (used in) operating activities	(46,276,174)	(80,223,988)	3,192,698

(Continued)

	Years ended December 31,		
	2006	2007	2008
	$	$	$
Investing activities:			
Increase in restricted cash	(686,214)	(695,893)	(17,950,833)
Purchase of investment	—	—	(3,000,000)
Purchase of property, plant and equipment	(7,113,912)	(42,006,616)	(104,817,010)
Proceeds from disposal of property, plant and equipment	30,157	220,009	6,322
Net cash used in investing activities	(7,769,969)	(42,482,500)	(125,761,521)
Financing activities:			
Proceeds from short-term borrowings	25,333,379	92,090,998	234,096,606
Repayment of short-term borrowings	(23,429,420)	(56,157,679)	(169,919,741)
Proceeds from long-term borrowings	—	16,712,795	24,964,230
Proceeds from issuance of convertible notes	3,650,000	75,000,000	—
Issuance cost paid on convertible notes	(571,315)	(2,970,138)	(381,900)
Proceeds from issuance of common shares, net of issuance costs	83,323,942	—	110,659,864
Proceeds from exercise of stock options	—	151,823	1,937,330
Net cash provided by financing activities	88,306,586	124,827,799	201,356,389
Effect of exchange rate changes	370,521	(5,364,950)	(793,765)
Net increase (decrease) in cash and cash equivalents	34,630,964	(3,243,639)	77,993,801
Cash and cash equivalents at the beginning of the year	6,279,795	40,910,759	37,667,120
Cash and cash equivalents at the end of the year	40,910,759	37,667,120	115,660,921
Supplemental disclosure of cash flow information:			
Interest paid	(1,471,498)	(823,040)	(11,103,634)
Income taxes paid	(1,340,014)	(177,790)	(2,683,014)
Supplemental schedule of non-cash activities:			
Issuance cost included in other payables	—	(381,496)	—
Property, plant and equipment cost included in other payables	41,657	(1,712,773)	(17,339,148)
Conversion of convertible notes to stockholders' equity	10,162,215	—	72,106,800

See notes to consolidated financial statements.

(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") are principally engaged in the design, development, manufacturing and marketing of solar power products for global markets. During the periods covered by the consolidated financial statements, substantially all of the Company's business was conducted through both CSI and the following operating subsidiaries:

Subsidiary	Date of Incorporation	Place of Incorporation	Percentage of Ownership
CSI Solartronics (Changshu) Co., Ltd.	November 23, 2001	PRC	100%
CSI Solar Technologies Inc.	August 8, 2003	PRC	100%
CSI Solar Manufacture Inc.	January 7, 2005	PRC	100%
CSI Central Solar Power Co., Ltd.	February 24, 2006	PRC	100%
Changshu CSI Advanced Solar Inc.	August 1, 2006	PRC	100%
CSI Cells Co., Ltd.	August 23, 2006	PRC	100%
Canadian Solar (USA) Inc.	June 8, 2007	USA	100%
CSI Solar Power Inc.	April 28, 2008	PRC	100%

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of presentation

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

(b) Basis of Consolidation

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

(c) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's financial statements include allowance for doubtful accounts and advances to suppliers, market values of inventories, accrual for warranty, fair value of foreign exchange derivative assets, provision for uncertain tax positions and tax valuation allowances, assumptions used in the computation of share-based compensation including the associated forfeiture rates and useful lives of and impairment for property, plant and equipment and intangible assets.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES — continued

(d) Cash and cash equivalents

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 which have original maturities of three months or less.

Restricted cash represented bank deposits for import and export transactions through China Customs and for bank acceptance notes.

(e) Advances to suppliers

In order to secure a stable supply of silicon materials, the Company makes prepayments to certain suppliers based on written purchase orders detailing product, quantity and price. The Company's supply contracts grant the Company the right to inspect products prior to acceptance. 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.

The Company makes the prepayments without receiving collateral. Such prepayments are unsecured and expose the Company to supplier credit risk. As of December 31, 2007 and 2008, prepayments made to individual suppliers in excess of 10% of total advances to suppliers are as follows:

	At December 31, 2007	At December 31, 2008
	$	$
Supplier A	$9,541,574	$25,583,405
Supplier B	—	15,997,973
Supplier C	4,102,711	12,528,000
Supplier D	*	9,027,574
Supplier E	8,324,889	—

* Less than 10%

(f) 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 overheads that have been incurred in bringing the inventories to their present location and condition.

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

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES — continued

(f) Inventories — continued

The Company outsources portions of its manufacturing process, including converting silicon into ingots, cutting ingots into wafers, and converting wafers into solar cells, to various third-party manufacturers. These outsourcing arrangements may or may not include transfer of title of the raw material inventory (silicon, ingots or wafers) to the third-party manufacturers. Such raw materials are recorded as raw materials inventory when purchased from suppliers. For those outsourcing arrangements in which title is not transferred, the Company maintains such inventory on the Company's balance sheet as raw materials inventory while it is in physical possession of the third-party manufacturer. Upon receipt of the processed inventory, it is reclassified to work-in-process inventory and a processing fee is paid to the third-party manufacturer. For those outsourcing arrangements, which are characterized as sales, in which title (including risk of loss) does transfer to the third-party manufacturer, the Company is constructively obligated, through raw materials sales agreements and processed inventory purchase agreements which have been entered into simultaneously with the third-party manufacturer, to repurchase the inventory once processed. In this case, the raw material inventory remains classified as raw material inventory while in the physical possession of the third-party manufacturer and cash is received, which is classified as "advances from customers" on the balance sheet and not as revenue or deferred revenue. Cash payments for outsourcing arrangements which require prepayment for repurchase of the processed inventory is classified as "advances to suppliers" on the balance sheet. There is no right of offset for these arrangements and accordingly, "advances from customers" and "advances to suppliers" remain on the balance sheet until the processed inventory is repurchased.

(g) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and amortization. The cost of property, plant and equipment comprises its purchase price and any directly attributable costs, including interest cost capitalized in accordance with SFAS No. 34, *"Capitalization of Interest Costs"* ("SFAS No. 34"), during the period the assets is brought to its working condition and location for its intended use.

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 payment and other costs relating to the construction, are capitalized and transferred to property, plant and equipment on completion and depreciation commences from that time.

(h) Prepaid land use right

Prepaid land use right represents amounts paid for the Company's lease for the use right of lands located in Changshu City, Suzhou City, and Luoyang City of mainland China. Amounts are charged to earning ratably over the term of the lease of 50 years.

(i) Investment

The Company's investment is in the preferred shares of a privately-held entity and is recorded under the cost method as the Company is unable to exert significant influence over such investment.

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 whether a loss is other-than-temporary. These factors include, but are not limited to, the: (1) nature of the investment; (2) cause and duration of the impairment; (3) extent to which fair value is less than cost; (4) financial conditions and near term prospects of the issuers; and (5) ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES — continued

(j) Impairment of long-lived assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Company measures impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss based on the fair value of the assets. There was no impairment charge recognized during the years ended December 31, 2006, 2007 and 2008.

(k) 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 by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on the characteristics of the underlying assets and liabilities, or the expected timing of their use when they do not relate to a specific asset or liability.

The Financial Accounting Standard Board ("FASB") issued Financial Interpretation No. 48 ("FIN 48") "Accounting for Uncertainty in Income Taxes," which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company adopted the provisions of FIN 48 on January 1, 2007 and recognized a $612,199 increase in the liability for uncertain tax positions, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

(l) Revenue recognition

Sales of modules and silicon material are recorded when products are delivered and title has passed to the customers. The Company only recognizes revenues when prices to the seller are fixed or determinable, and collectibility is reasonably assured. Revenues also include reimbursements of shipping and handling costs of products sold to customers. Sales agreements typically contain the customary product warranties but do not contain any post-shipment obligations nor any return or credit provisions.

A majority of the Company's contracts provide that products are shipped under the term of free on board ("FOB"), ex-works, or cost, insurance and freight ("CIF"). Under FOB, the Company fulfils its obligation to deliver when the goods have passed over the ship's rail at the named port of shipment. The customer has to bear all costs and risks of loss or damage to the goods from that point. Under ex-works, the Company fulfils its obligation to deliver when it has made the goods available at its premises to the customer. The customer bears all costs and risks involved in taking the goods from the Company's premises to the desired destination. Under CIF, the Company must pay the costs, marine insurance and freight necessary to bring the goods to the named port of destination but the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered on board the vessel, is transferred to the customer when the goods pass the ship's rail in the port of shipment. Sales are recorded when the risk of loss or damage is transferred from the Company to the customers.

The Company enters into toll manufacturing arrangements in which the Company receives wafers and returns finished modules. The Company recognizes a service fee as revenue when the processed modules are delivered.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES — continued

(m) Cost of revenues

Cost of revenues from modules includes production and indirect costs such as shipping and handling costs for products sold. Cost of revenues from silicon materials includes acquisition costs. Cost of revenues from services includes labor and material costs associated with provision of the services.

(n) Research and development

Research and development costs are expensed when incurred.

(o) Advertising expenses

Advertising expenses are expensed as incurred and amounted to $55,448, $512,465 and $304,978 for the years ended December 31, 2006, 2007 and 2008, respectively.

(p) Warranty cost

The Company's solar modules and products are typically sold with up to a two-year guarantee for defects in materials and workmanship and 10-year and 25-year warranties against specified declines in the initial minimum power generation capacity at the time of delivery. The Company has the right to repair or replace solar modules, at its option, under the terms of the warranty policy. 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 the Company's competitors' accrual 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 warranty costs differ from the estimates, the Company will prospectively revise its accrual rate.

(q) Foreign currency translation

The United States dollar ("U.S. dollar"), 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 statements of operations. The Company recorded an exchange loss of $481,019 for the year ended December 31, 2006, an exchange gain of $2,688,448 for the year ended December 31, 2007, and an exchange loss of $19,989,123 for the year ended December 31, 2008.

The financial records of certain of the Company's subsidiaries are maintained in local currencies other than the U.S. dollar, such as Renminbi ("RMB"), which are their functional currencies. Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as foreign currency translation adjustment and are shown as a separate component of other comprehensive income (loss) in the statements of stockholders' equity and comprehensive income (loss).

(r) 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 $8,827,341 and $96,543,991 as of December 31, 2007 and 2008, respectively.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES — continued

(s) 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 be 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 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.

(t) Fair value of derivatives and financial instruments

The carrying value of cash and cash equivalents, trade receivables, advances to suppliers, accounts payable and short-term borrowings approximate their fair values due to the short-term maturity of these instruments. Long-term bank borrowings approximate their fair value since the contracts were entered into with floating market interest rates.

The carrying amount of the Company's outstanding convertible notes was $0.8 million as of December 31, 2008, which approximated fair value. The Company did not compute the fair value of its $3,000,000 investment (as of December 31, 2008) as it was impracticable to do so without incurring significant cost.

The Company's primary objective for holding derivative financial instruments is to manage currency risk. The Company records derivative instruments as assets or liabilities, measured at fair value. The recognition of gains or losses resulting from changes in fair values 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 statement of operations. The Company recorded gain on foreign currency derivative contracts as $nil, $nil and $14,454,814 for the years ended December 31, 2006, 2007 and 2008, respectively.

(u) Earnings per Share

Basic income per share is computed by dividing income attributable to holders of common shares by the weighted average number of common shares outstanding during the year. Diluted income per common share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares.

(v) Share-based compensation

The Company account for share-based compensation in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123R"). SFAS 123R requires the Company to use a fair-value based method to account for share-based compensation. Accordingly, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. As required by SFAS 123R, the Company have made an estimate of expected forfeitures and are recognizing compensation cost only for those equity awards expected to vest.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES — continued

(w) Reclassifications

Certain reclassification have been made to prior year numbers to conform to current year presentation.

(x) Recently issued accounting pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R (revised 2007), *Business Combination* (“SFAS 141R”), to improve reporting and to create greater consistency in the accounting and financial reporting of business combinations. The standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS 141R amends SFAS 109, “Accounting for Income Taxes,” such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141R would also apply the provisions of SFAS 141R. The adoption of SFAS 141R will change the Company’s accounting treatment for business combinations on a prospective basis beginning on January 1, 2009.

On April 1, 2009, the FASB issued FASB Staff Position (“FSP”) No. 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (“FSP 141(R)-1”), which amends the guidance in SFAS 141R to establish a model for pre-acquisition contingencies that is similar to the one entities used under SFAS 141. Under the FSP, an acquirer is required to recognize at fair value an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value cannot be determined, then the acquirer follows the recognition criteria in SFAS 5 and FIN 14 to determine whether the contingency should be recognized as of the acquisition date or after it. The FSP is effective for business combinations whose acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of FSP 141(R)-1 will change the Company’s accounting treatment for business combinations on a prospective basis beginning on January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51* (“SFAS 160”), to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report non-controlling interests in subsidiaries in the same way as required in the consolidated financial statements. SFAS 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect that the adoption of SFAS 160 will have an impact on the consolidated financial statements.

In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157* (“FSP 157-2”). FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. As a result of FSP 157-2, the Company will adopt SFAS 157 for its nonfinancial assets and nonfinancial liabilities beginning with the first interim period of its fiscal year 2009. The Company does not expect that the adoption of SFAS 157 for its nonfinancial assets and nonfinancial liabilities will have a material impact on its financial position, results of operations or cash flows.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (“FSP 157-3”). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active, and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active, and the use of market quotes when assessing the relevance of observable and unobservable data. FSP 157-3 is effective for all periods presented in accordance with FAS 157. The Company does not expect the adoption of FSP 157-3 to have a material impact on the Company’s consolidated financial statements or the fair values of its financial assets and liabilities.

(x) Recently issued accounting pronouncements — continued

On April 9, 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (“FSP 157-4”). FSP 157-4 provides additional guidance for estimating fair value in accordance with FASB 157 when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. The Company does not expect the adoption of FSP 157-4 to have a material impact on the Company’s consolidated financial statements or the fair values of its financial assets and liabilities.

In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities* (“SFAS 161”), an amendment of FASB Statement No.133. The new standard requires enhanced disclosures to help investors better understand the effect of an entity’s derivative instruments and related hedging activities on its financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 does not change the accounting treatment for derivative instruments but will impact the Company’s disclosures related to derivative instruments and hedging activities effective from January 1, 2009.

In April 2008, the FASB issued FSP FAS 142-3, *Determining the Useful Life of Intangible Assets* (“FSP 142-3”). FSP 142-3 amends the factors to be considered in determining the useful life of intangible assets. Its intent is to improve the consistency between the useful life of an intangible asset and the period of expected cash flows used to measure such asset’s fair value. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company does not expect that the adoption of FSP 142-3 will have a material impact on the consolidated financial statements.

In May 2008, the FASB issued FSP Accounting Principles Board (“APB”) Opinion 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (“FSP APB 14-1”). FSP APB 14-1 requires recognition of both the debt and equity components of convertible debt instruments with cash settlement features. The debt component is required to be recognized at the fair value of a similar instrument that does not have an associated equity component. The equity component is recognized as the difference between the proceeds from the issuance of the note and the fair value of the debt component. FSP APB 14-1 also requires an accretion of the resulting debt discount over the expected life of the debt. Retrospective application to all periods presented is required. The Company adopted APB 14-1 effective January 1, 2009 and these consolidated financial statements have been retroactively adjusted to reflect the adoption, as described in Note 20.

At its June 25, 2008 meeting, the FASB ratified the consensus reached in the Emerging Issues Task Force (“EITF”) Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock* (“EITF 07-5”). EITF 07-5 is effective for fiscal years and interim periods beginning after December 15, 2008. This Issue’s “fixed-for-fixed, plus fair value inputs” model is largely consistent with current interpretations of the phrase “indexed to an entity’s own stock.” However, in certain circumstances, Issue 07-5 may result in changes to those accounting conclusions and may have impact on issuers of equity-linked financial instruments (e.g., options or forward contracts) or instruments containing embedded features (e.g., embedded conversion options in a convertible instrument) that have (1) exercise or settlement contingency provisions, (2) a strike price that is subject to adjustment, or (3) a strike price that is denominated in a currency other than the entity’s functional currency. The Company is currently evaluating the impact of this statement on its consolidated financial statements.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES — continued

(x) Recently issued accounting pronouncements — continued

In April 2009, the FASB issued FSP FAS 115-2 and 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* ("FSP FAS 115-2 and FAS 124-2"). The FSP amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The Company does not expect the adoption of FSP FAS 115-2 and FAS 124-2 to have a material impact on the Company's consolidated financial statements.

3. ALLOWANCE FOR DOUBTFUL RECEIVABLES

Allowance for doubtful receivables are comprised of allowances for account receivable and advances to suppliers.

An analysis of allowances for accounts receivable at December 31, 2007 and 2008 is as follows:

	At December 31, 2007	At December 31, 2008
	$	$
Beginning of the year	—	376,178
Allowances made during the year	456,570	5,218,944
Accounts written-off against allowances	(83,954)	(19,000)
Foreign exchange effect	3,562	29,861
Closing balance	376,178	5,605,983

An analysis of allowances for advances to suppliers at December 31, 2007 and 2008 is as follows:

	At December 31, 2007	At December 31, 2008
	$	$
Beginning of the year	—	—
Allowances made during the year	—	2,226,084
Foreign exchange effect	—	115,601
Closing balance	—	2,341,685

4. INVENTORIES

Inventories consist of the following:

	At December 31, 2007	At December 31, 2008
	$	$
Raw materials	39,184,973	46,121,994
Work-in-process	21,082,544	17,220,906
Finished goods	10,653,410	29,339,647
	70,920,927	92,682,547

The company wrote down obsolete inventories amounting to $274,947, $482,544 and $23,784,578 during the years ended December 31, 2006, 2007 and 2008 respectively.

5. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consists of the following:

	At December 31, 2007	At December 31, 2008
	$	$
Buildings	2,313,884	23,854,814
Leasehold improvements	475,654	1,674,838
Machinery	24,572,316	72,017,929
Furniture, fixtures and equipment	1,723,984	5,569,500
Motor vehicles	311,831	1,055,123
	29,397,669	104,172,204
Less: Accumulated depreciation	(2,060,207)	(11,888,864)
	27,337,462	92,283,340
Construction in process	24,148,796	73,258,545
Property, plant and equipment, net	51,486,258	165,541,885

Depreciation expense was $205,124, $1,611,885 and $9,213,765 for the years ended December 31, 2006, 2007 and 2008, respectively. Construction in process represents production facilities under construction.

6. FAIR VALUE MEASUREMENT

On January 1, 2008, the Company adopted SFAS 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands financial statement disclosure requirements for fair value measurements. The Company's adoption of SFAS 157 was limited to its financial assets and financial liabilities, as permitted by FSP 157-2. The Company does not have any non financial assets or non financial liabilities that it recognizes or discloses at fair value in its financial statements on a recurring basis. The implementation of the fair value measurement guidance of SFAS 157 did not result in any material changes to the carrying values of the Company's financial instruments on its opening balance sheet on January 1, 2008.

SFAS 157 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) on the measurement date in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. SFAS 157 specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

- Level 1 — Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.
- Level 2 — Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.
- Level 3 — Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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.

6. FAIR VALUE MEASUREMENT — continued

The Company's foreign currency derivative assets relate to foreign exchange option or forward contracts involving major currencies such as Euro and USD. Since its derivative assets 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, it classifies these valuation techniques 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.

As of December 31, 2008, the fair value measurement of the Company's foreign currency derivative assets 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		
	Total Fair Value and Carrying Value on the Balance Sheet	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	$ 6,136,044	$ —	$ 6,136,044	$ —
Foreign exchange forward contracts	$ 838,020	$ —	$ 838,020	$ —
Total Assets	$ 6,974,064	—	$ 6,974,064	—

7. BANK BORROWING

	At December 31, 2007 $	At December 31, 2008 $
Bank borrowings	58,240,135	156,022,153
Analysis as:		
Short-term	40,373,932	110,664,813
Long-term	17,866,203	45,357,340
Total	58,240,135	156,022,153

In the years ended December 31, 2007 and 2008, the maximum bank credit facilities granted to the Company were $79,477,082 and $216,506,113, respectively, of which $58,240,135 and $156,022,153 were drawn down and $21,236,947 and $60,483,960 were available, respectively.

a) Short-term

The average interest rate on short term borrowings was 5.85% and 5.64% per annum for the years ended December 31, 2007 and 2008, respectively. The borrowings are repayable within one year. As of December 31, 2007 and 2008, borrowings of $9,339,101 and $5,706,246, respectively, were guaranteed by Mr. Shawn Qu, Chairman, President and Chief Executive Officer of the Company.

On July 19, 2007, CSI Cells Co., Ltd. entered into a syndicate loan agreement with local Chinese commercial banks for the expansion of solar cell production capacity. The total credit facility under this agreement is $30.0 million or equivalent RMB amount with two tranches. The first tranche has a credit limit of $10.0 million, which requires repayment within one year. The second tranche has a credit limit of $20.0 million which requires repayment of $10.0 million in 2009 and $10 million in 2010. CSI Cells Co., Ltd. has fully utilized the credit facility, drawing $5.0 million in US dollars and $25.0 million in RMB. Both tranches bear interest at a floating rate of six-month LIBOR+0.8% for US dollar denominated borrowings or the base interest rate published by People's Bank of China for the same maturity for RMB denominated borrowings. Interest under the first tranche is due monthly in arrears and interest under the second tranche is due quarterly in arrears.

7. BANK BORROWING — continued

Outstanding borrowings under this agreement were $17,866,203 and $31,312,012 at December 31, 2007 and 2008, respectively, and were secured by the land use right and buildings of CSI Cells Co., Ltd and are guaranteed by Canadian Solar Inc. The borrowing contains financial covenants which require that for any fiscal year, (i) the ratio of total liabilities to EBITDA be no higher than 3.21, (ii) the ratio of operating cash flows to liabilities be no lower than 0.25 and (iii) the ratio of liabilities to assets be no higher than 60%. CSI Cells Co., Ltd. failed to meet all of these covenants as of December 31, 2008. As CSI Cells Co., Ltd. has not obtained a written waiver from the banks, the total outstanding balance as of December 31, 2008 is subject to accelerated repayment and has been classified as a short-term borrowing.

On July 19, 2007, CSI Solar Manufacture Inc. entered into a syndicated loan agreement with local Chinese commercial banks for working capital purposes. The total credit facility under this agreement is $20.0 million and is available for three years. Each withdrawal is to be repaid within one year. The borrowing bears a floating interest rate of six-month LIBOR+0.8% for US dollar denominated borrowings or the base interest rate published by People's Bank of China for the same maturity for RMB denominated borrowings. Interest is due monthly in arrears. The outstanding balance under this agreement was $13,000,000 and $10,000,000 as of December 31, 2007 and 2008 respectively, and was guaranteed by Canadian Solar Inc. The borrowing contains financial covenants which require that for any fiscal year, (i) the ratio of liabilities to assets be no higher than 65%, (ii) the ratio of accounts receivable balance to revenues be no higher than 45% and (iii) the current ratio be no lower than 125%. CSI Solar Manufacture Inc. met all of the above financial covenants as of December 31, 2007 and 2008.

b) Long-term

The average interest rate on long-term borrowings was 6.83% and 7.23% per annum for the years ended December 31, 2007 and 2008, respectively.

On February 14, 2008, CSI Cells Co., Ltd. entered into a loan agreement of $1,463,140 with the local government for the research and development of low-cost solar cells. The borrowing was unsecured, interest-free, has a maturity of three years and does not contain any financial covenants or restrictions.

On June 18, 2008, CSI Central Solar Power Co., Ltd. entered into a loan agreement with a local Chinese commercial bank for the purchase of properties. The total credit facility under this agreement is $20,483,960 which requires repayment of $5,852,560 and $14,631,400 in 2009 and 2010, respectively. Interest is due quarterly in arrears. The outstanding balance as of December 31, 2008 was $20,483,960 and was guaranteed by CSI Cells Co., Ltd. The borrowing bears a floating base interest rate published by People's Bank of China for borrowings with the same maturities and does not contain any financial covenants or restrictions.

On June 27, 2008, CSI Central Solar Power Co., Ltd. entered into a loan agreement with a local Chinese commercial bank for the construction of solar wafer production lines. The total credit facility under this agreement is $29,262,800 which requires repayment of $14,631,400 in 2010 and 2011. Interest is due quarterly in arrears. The outstanding balance as of December 31, 2008 was $29,262,800 and was guaranteed by CSI Cells Co., Ltd. The borrowing bears a floating base interest rate published by People's Bank of China for borrowings with the same maturities and does not contain any financial covenants or restrictions.

Future principal repayment on the long-term bank loans are as follows:

2009	$ 5,852,560
2010	29,262,800
2011	16,094,540
2012	—
2013 and after	—
Total	51,209,900
Less: current portion	(5,852,560)
Total long-term portion	$45,357,340

7. BANK BORROWING — continued

c) Interest expense

	Years ended December 31		
	2006	2007	2008
	$	$	$
Interest capitalized	—	46,617	1,188,135
Interest expense	2,193,551	2,311,270	12,201,293
Total interest incurred	2,193,551	2,357,887	13,389,428

8. ACCRUED WARRANTY COSTS

The Company's warranty activity is summarized below:

	At December 31, 2007	At December 31, 2008
	$	$
Beginning balance	874,673	3,878,755
Warranty provision	3,015,715	6,978,411
Warranty costs incurred	(11,633)	(10,447)
Ending balance	3,878,755	10,846,719

9. CONVERTIBLE NOTES

2005 Convertible Note Subscription Agreement

On November 30, 2005, the Company signed a subscription agreement with a group of third-party investors to issue two tranches of convertible notes. The first tranche of notes with a principal value of $8,100,000 was issued on November 30, 2005. The second tranche of notes with a principal value of $3,650,000 was issued on March 30, 2006.

The terms of all two tranches of convertible notes are described as follows:

Maturity date. The convertible notes mature on November 30, 2008.

Interest. The note holders are entitled to receive interest at 2% per annum on the principal outstanding, in four equal quarterly installments, payable in arrears.

If the Company fails to pay any principal or interest amounts, or other payments in respect of the notes, when due, or if the convertible notes are not converted in full into common shares on the date requested by the note holders, the convertible notes shall bear an extraordinary interest, compounded at a rate of twelve percent (12%) per annum for any amounts of overdue principal, interest or other payment under the convertible notes.

If the Company has not completed a qualified initial public offering (defined as (i) an offering size of not less than $30,000,000, (ii) total market capitalization of not less than $120,000,000, and (iii) public float of not less than twenty-five percent (25%) of the enlarged share capital) prior to maturity of the convertible notes, the Company must pay an interest premium of ten percent (10%) per annum in respect of principal, paid and unpaid interest, unpaid dividends, and extraordinary interest.

Withholding taxes. All payments in respect of the note will be made without withholding or deduction of or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the government of Hong Kong, Canada or any authority therein or thereof having power to tax unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law.

9. CONVERTIBLE NOTES — continued

Dividends. The stockholder as of the issue date is entitled to all audited retained earnings as of 28 February 2006. The Company shall not declare or pay any dividend before the completion of a qualified initial public offering or redemption of all convertible notes, except with the prior written consent of all holders of the outstanding convertible notes.

Conversion. The notes are convertible into 2,378,543 common shares at a conversion rate of $4.94 per share, representing 23.79% of the 10,000,000 total expected number of Common Shares to be issue on a Fully-Diluted Basis as set forth in the subscription agreement. The fair value of the Company's common stock on November 30, 2005 was $5.67 per share. The notes are convertible (i) at any time after the date of issuance of such notes upon obtaining written consents from the note holders requesting conversion to common shares, and (ii) automatically upon the consummation of a qualified initial public offering. The conversion rate is subject to standard anti-dilutive adjustments and is also subject to adjustment in the event that (i) the Company's audited profit after tax for the twelve month period ended February 28, 2006 is less than certain predefined amounts, (ii) the Company's number of shares issued or issuable on a fully diluted basis is different from a predefined quantity at conversion, or (iii) the Company issues equity securities at a price below the conversion price then in effect.

The Company is required to bifurcate the conversion feature pursuant to FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133").

Redemption. If the Company experiences an event of default under the subscription agreement (including but not limited to a change of control of the Company) prior to maturity and upon written demand from the note holders (referred to as "early redemption right"), the Company must pay the greater of (i) an interest premium of twelve percent (12%) per annum in respect of principal, paid and unpaid interest, unpaid dividends, and extraordinary interest, or (ii) the fair value of the Company's common shares that would be held by the note holders on an if-converted basis. The Company is required to bifurcate the early redemption right pursuant to SFAS 133.

Liquidation preference. The convertible notes are senior to any common shareholder claims in the event of liquidation.

Pledge of shares. The Company's sole shareholder pledged 1,133,684 shares to the note holders of convertible notes as of December 31, 2005. The pledge represents 20% of the shares held by the sole shareholder and are pledged as collateral for repayment of the convertible notes.

The $8,100,000 purchase price of convertible notes issued on November 30, 2005 was reduced by issuance costs of $641,000. The Company allocated $3,363,000 of the net proceeds of $7,459,000 to the compound embedded derivative liability which was comprised of the bifurcated conversion feature and the early redemption right, $843,996 to the freestanding financial instruments liability associated with the obligation to issue the second tranche of convertible debt to the investors and the investors' option to subscribe for a third tranche of convertible debt, and $3,252,004 to the convertible debt. The resulting discount on the convertible debt is being amortized over the three year term using the straight-line method which approximates the effective interest rate method.

As of December 31, 2005, the fair values of the convertible debt, compound embedded derivative liability, the freestanding financial instrument liability were $11,595,000, $3,679,000, and $1,107,084, respectively. Changes in the fair value of the compound embedded derivative and the freestanding option, which is classified within the freestanding financial liability, are recognized at each reporting date and are classified as loss on change in value of derivatives in the statements of operations.

Subsequent to the November 30, 2005 issuance, the Company and the note holders amended the terms of the note agreement as follows:

On March 30, 2006, the Company and the note holders executed a supplemental agreement amending certain provisions related to events of default prior to conversion or maturity (as defined in the subscription agreement). The original terms required that, in the event of default, the Company pay the note holders the greater of a 12% interest premium or the fair value of the common stock underlying the convertible notes on an if-converted basis. The terms of the supplemental agreement state that in an event of default the Company must pay an interest premium of 18% per annum. The terms of the original agreement created a provision which allowed for potential net settlement of the Company's common shares, and accordingly, prior to the supplemental agreement, the Company was required to bifurcate the conversion option from the host debt instrument as it met the test of a derivative instrument.

9. CONVERTIBLE NOTES — continued

Since the supplemental agreement removed the net settlement provision the Company was no longer required to bifurcate the conversion option. Accordingly, on March 30, 2006, the Company derecognized the embedded derivative liability related to the conversion option. Because the early redemption put option continues to meet the definition of a derivative instrument after the March 30, 2006 modification, the early redemption option continues to be recorded by the Company as a derivative liability and reported at its fair value with changes in its fair value recognized in the statements of operations. The early redemption option was valued by an independent valuer using the Black-Scholes option pricing model.

In addition to revising the provisions related to events of default, the March 30, 2006 supplemental agreement revised the original subscription agreement to revise the profit after tax computation to exclude all costs and charges related to the issuance of the convertible notes, including all costs and charges related to the recording of the derivative and freestanding financial instruments associated with the convertible notes, including changes to their fair values. The supplemental agreement effectively requires that the Company achieve a profit after tax of $6 million for the 12-month period ended February 28, 2006, reduced by the amount of all costs and charges related to the issuance of the convertible notes and related derivative and freestanding financial instruments.

Additionally, the supplemental agreement revised the requirement under the original subscription agreement that the Company deliver to the note holders audited financial statements for the year ended December 31, 2004 of profit after tax of $1 million, and the eight-month period ended August 31, 2005 of profit after tax of $4.5 million, under IFRS and delivered to the note holders by January 31, 2006. The supplement agreement changed the date of delivery of the audited financial statements to April 30, 2006.

On June 9, 2006, the Company and the note holders executed a supplemental agreement removing the provision that would have given the note holders an adjustment on the conversion price in the event the Company’s profit after tax for the 12-month period ended February 28, 2006 was less than certain predefined amounts.

On July 1, 2006, the Company and the note holders executed a supplemental agreement amending the following provisions:

Interest The note shall bear interest from the issuance date at the rate of 12% per annum on the principal amount of the note outstanding. Such interest shall be payable as follows:

(i) 2% per annum shall be payable in cash by four equal quarterly installments in arrears, and (ii) 10% per annum shall be payable in a balloon payment as at the date of conversion or redemption as the case may be.

Taxes No withholding taxes shall be payable by the Company in respect of any amounts deemed under the Canadian income tax laws to constitute interest paid upon conversion of the note.

Conversion The conversion price per common share shall be adjusted to be US$5.77 upon the full conversion of all notes of an aggregate principal amount of $11,750,000.

Share split Immediately following the full conversion of all notes, the outstanding common shares owned by Mr. Shawn Qu and the note holders will be split on a 1.17 for 1 basis such that the aggregate shareholding of the note holders in the Company following the share split shall be 23.79%, or a conversion ratio of $4.94, effectively the original conversion ratio on a post-split basis.

On July 1, 2006, the notes of an aggregate principal amount of $11,750,000 were converted into 2,036,196 common shares.

On July 1, 2006, Mr. Shawn Qu, the sole shareholder prior to conversion of the notes entered into a put option agreement with the note holders to grant the note holders an option to sell back all the common shares from conversion of the notes to Mr. Shawn Qu at the principal amount of the notes of $11,750,000. The put option is exercisable from time to time in whole or in part (i) at any time from March 31, 2007 (inclusive) to April 10, 2007 (inclusive) in the event that the Company has not completed a Qualified IPO on or before March 31, 2007 or (ii) at any time after the occurrence and during the continuance of an event of default. On July 1, 2006, Mr. Shawn Qu, stockholder of the Company, pledged 6,757,000 shares in favor of the note holders. The put option terminated upon the initial public offering on November 9, 2006.

9. CONVERTIBLE NOTES — continued

On July 11, 2006, the Board of Directors approved the share split on a 1.17 for 1 basis for the shares owned by Mr. Shawn Qu and the note holders. On October 19, 2006, the Board of Directors approved the share split on a 2.33 for 1 basis for 9,000,000 shares owned by Mr. Shawn Qu and the note holders. After the share split, 15,427,995 shares are owned by Mr. Shawn Qu, 5,542,005 are owned by the note holders. All share information relating to common shares of the Company in the accompanying financial statements have been adjusted retroactively.

When the note holders converted all of their convertible notes into the Company's common shares on July 1, 2006, they acknowledged and agreed that Mr. Shawn Qu's right to the Company's retained earnings as of February 28, 2006 under the dividend provision of the convertible notes would remain in effect. The note holders and Mr. Shawn Qu agreed to give effect to Mr. Shawn Qu's right by:

(i) the transfer to Mr. Shawn Qu of 108,667 common shares from the note holders; and

(ii) the issue under the Company's stock-based compensation plan of (a) 116,500 restricted shares, and (b) options to purchase 46,600 common shares at an exercise price of $4.29 per common share, both with vesting periods of four years, to Hanbing Zhang, who is the wife of Mr. Shawn Qu.

2007 Convertible Note Subscription Agreement

On December 11, 2007, the Company signed a subscription agreement for the issuance of convertible notes of $75,000,000 (the "2007 Notes").

The terms of the 2007 Notes are described as follows:

Maturity date. The 2007 Notes mature on December 15, 2017.

Interest. The 2007 Note holders are entitled to receive interest at 6% per annum on the principal outstanding, in semi-annually installments, payable in arrears.

Conversion. The initial conversion rate is 50.6073 shares per $1,000 initial principal amount, which represents an initial conversion price of approximately $19.76 per share. The 2007 Notes are convertible at any time prior to maturity. The conversion rate is subject to change for certain anti-dilution events and upon a change in control. If the holders elect to convert the 2007 Notes upon a change of control, the conversion rate will increase by a number of additional shares as determined by reference to an adjustment schedule based on the date on which the change in control becomes effective and the price paid per common share in the transaction (referred to as the "Fundamental Change Make-Whole Premium"). The Make-Whole Premium is intended to compensate holders for the loss of time value upon early exercise.

Redemption. The holders may require the Company to repurchase the 2007 Notes for cash on December 24, 2012 and December 15, 2014, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest. The Company may redeem the notes on or after December 24, 2012 at a redemption price equal 100% of the principal amount of the notes, plus accrued and unpaid interest, (i) in whole or in part the closing price for our common shares exceeds 130% of the conversion price for at least 20 trading days within a period of 30 consecutive trading days ending within five trading days of the notice of redemption or (ii) in whole only, if at least 95% of the initial aggregate principal amount of the 2007 Notes originally issued have been redeemed, converted or repurchased and, in each case, cancelled.

In accordance with FSP APB 14-1, the Company recognized both the debt and equity components associated with the 2007 Notes. The debt component was recognized at the fair value of a similar instrument that does not have an associated equity component, which initially amounted to $62,686,088. The equity component was recognized as the difference between the proceeds and the fair value of the debt component. Offering costs incurred for the issuance of the 2007 Notes amounted to $3,351,634, which were allocated to the debt and equity components in proportion to the allocation of the proceeds and were accounted for as debt issuance costs and equity issuance costs, respectively. The initial debt issuance costs amounted to $2,801,344. The debt discount (measured as the difference between the proceeds and the initial debt component plus debt issuance costs) are being amortized through interest expense over the period from December 10, 2007, the date of issuance, to December 24, 2012, the earliest redemption date, using the effective interest rate method, which was 11.4% for the years ended December 31, 2007 and 2008, respectively. Amortization expense of $nil and $1,179,446 was recorded for the years ended December 31, 2007 and 2008, respectively. In addition, coupon interest charge of $262,500 and $2,280,000 were recorded for the years ended December 31, 2007 and 2008, respectively.

9. CONVERTIBLE NOTES — continued

On May 27, 2008, the Company offered to increase the conversion rate, based on a specified formula, to induce the holders of the 2007 Notes to convert their notes into the Company's common shares (the "Offer") on or before June 24, 2008.

On June 27, 2008, the Company announced an increased conversion rate of 53.6061 in accordance with the terms of the Offer and issued 3,966,841 common shares in exchange for $74 million in principal amount of the 2007 Notes. The induced conversion resulted in a charge to earnings of $10,170,118, which was equal to the fair value of all common shares and cash consideration transferred in the transaction in excess of the fair value of the common shares issuable pursuant to the original conversion terms. In addition, the Company recognized $2,429,524 as a gain on debt extinguishment, equal to the difference between the consideration attributed to the debt component and the sum of (a) the net carrying amount of the debt component and (b) any unamortized debt issuance costs. In addition, upon conversion, $13,766,173 in unamortized debt discount and debt issuance costs were reclassified to common shares.

Details of convertible notes as of December 31, 2007 and 2008 are as follows:

	At December 31, 2007 $	At December 31, 2008 $
Carrying amount of the equity component	11,763,622	156,848
Principal amount of the debt component	75,000,000	1,000,000
Unamortized debt discount	15,115,256	169,638
Net carrying amount of the debt component	59,884,744	830,362

As of December 31, 2008, the remaining period over which the discount on the debt component will be amortized was 4 years. The conversion price and the number of shares upon conversion were approximately $19.76 per share and 50,607, respectively. The intrinsic value, as measured by the amount by which the instrument's if-converted value exceeds its principal amount, regardless of whether the instrument is currently convertible, was $nil.

10. RESTRICTED NET ASSETS

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprise, the Company's PRC subsidiaries are required to make appropriations from net income as determined under accounting principles generally accepted in the PRC ("PRC GAAP") to non distributable reserves which include a general reserve, an enterprise expansion reserve and a staff welfare and bonus reserve. Wholly-owned PRC subsidiaries are not required to make appropriations to the enterprise expansion reserve but appropriations to the general reserve are required to be made at not less than 10% of the profit after tax as determined under PRC GAAP. The staff welfare and bonus reserve is determined by the board of directors.

The general reserve is used to offset future losses. The subsidiaries may, upon a resolution passed by the stockholder, convert the general reserve into capital. The staff welfare and bonus reserve is used for the collective welfare of the employee of the subsidiaries. The enterprise expansion reserve is for the expansion of the subsidiaries' operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of the retained earnings determined in accordance with Chinese law.

In addition to the general reserve, the Company's PRC subsidiaries are required to obtain approval from the local PRC government prior to distributing any registered share capital. Accordingly, both the appropriations to general reserve and the registered share capital of the Company's PRC subsidiaries are considered as restricted net assets amounting to $82,408,533 and $178,287,562 as of December 31, 2007 and 2008, respectively.

11. INCOME TAXES

The provision for income taxes is comprised of the following:

	Years ended December 31,		
	2006	2007	2008
	$	$	$
Income (Loss) before Income Tax			
Canada	(15,218,572)	(2,572,182)	(31,376,639)
Other	6,220,702	2,233,389	33,496,558
	(8,997,870)	(338,793)	2,119,919
Current Tax			
Canada	(115,061)	569,396	9,268,794
Other	363,719	471,220	2,837,939
	248,658	1,040,616	12,106,733
Deferred Tax			
Canada	263,309	(241,815)	571,861
Other	(79,973)	(962,315)	(3,024,814)
	183,336	(1,204,130)	(2,452,953)
Total Income Tax Provision			
Canada	148,248	327,581	9,840,655
Other	283,746	(491,095)	(186,875)
	431,994	(163,514)	9,653,780

The Company was incorporated in Ontario, Canada and is subject to both federal and Ontario provincial corporate income taxes at a rate of 36.12%, 36.12% and 33.50% for the years ended 2006, 2007 and 2008, respectively.

The major operating subsidiaries, CSI Solartronics (Changshu) Co., Ltd., CSI Solar Manufacture Inc., CSI Cells Co., Ltd., CSI Central Solar Power Co., Ltd., and Changshu CSI Advanced Solar Inc. were governed by the PRC Enterprise Income Tax Law (“EIT Law”), which replaced the old Income Tax Law of PRC Concerning Foreign Investment and Foreign Enterprises and various local income tax regulations (the old “FEIT Law”) effective from January 1, 2008.

Pursuant to the old FEIT Law, foreign-invested manufacturing enterprises were subject to income tax at a statutory rate of 33% (30% of state income tax plus 3% local income tax) on PRC taxable income. However, a preferential tax rate (24% or 15% of state income tax) was available for foreign-investment manufacturing enterprises located in specific geographical areas. In addition, under the old FEIT Law, foreign-invested manufacturing enterprises were entitled to tax exemption from the state income tax for their first two profitable years of operation, after taking into account any tax losses brought forward from prior years, and a 50% tax deduction for the succeeding three years. Local income tax was fully exempted during the tax holiday.

On March 16, 2007, the PRC government promulgated the EIT Law. The PRC EIT Law provides that enterprises established under the laws of foreign jurisdictions and whose “de facto management bodies” are located within the PRC territory are considered PRC resident enterprises, and will be subject to the PRC EIT at the rate of 25% on worldwide income. While the Chinese tax residency concept of place of management and control is vaguely defined in the new EIT Law, the Implementation Rules (“IRs”) of the new EIT Law look to substantial and comprehensive management and control over the manufacturing and business operations, personnel, accounting and properties of an enterprise.

Under the new EIT Law, domestically-owned enterprises and foreign-invested enterprises (“FIEs”) are subject to a uniform tax rate of 25%. While the new EIT Law equalizes the tax rates for FIEs and domestically-owned companies, preferential tax treatment (e.g. tax rate of 15%) will continue to be given to companies in certain encouraged sectors and to entities classified as state-encouraged “New High Technology” companies regardless of whether they are domestically-owned enterprises or FIEs. In 2008, CSI Solartronics (Changshu) Co., Ltd. was recognized as a state-encouraged “New High Technology” company and was entitled to a 15% preferential tax rate for fiscal 2008.

11. INCOME TAXES — continued

The new EIT Law also provides a five-year transition period starting from its effective date for those enterprises which were established before the promulgation date of the new EIT Law and which were entitled to a preferential lower tax rate and tax holiday under the old FEIT Law or regulations. The tax rate of such enterprises will transition to the 25% uniform tax rate within a five-year transition period and the tax holiday, which was enjoyed by such enterprises before the effective date of the new EIT Law, may continue to be enjoyed until the end of the tax holiday.

Subject to the circular promulgated by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Enterprise Income Tax Law (Decree No. [2007] 39), or the Implementation Circular, only a certain number of the preferential policies provided under the former Income Tax Law, regulations, and documents promulgated under the legal authority of the State Council are eligible to be grandfathered in accordance with Implementation Circular. With respect to our PRC operations, the “two-year exemption” and “three-year half reduction” tax preferential policies enjoyed by our PRC subsidiaries are included in the scope of those grandfathered by the Implementation Circular.

Accordingly, from January 1, 2008, the tax rates applicable on the Company’s major operating subsidiaries are summarized as follows:

Company	Tax Rate under the old FEIT law	Tax holiday under the old EIT Law	Transitional Tax rate under the new EIT Law
CSI Solartronics (Changshu) Co., Ltd.	27% (24% state tax + 3% local tax)	2-year exemption ended December 31, 2003 + 3 year half reduction ended December 31, 2006; 12% for 2007 due to the technology advanced enterprise status	15% (obtained “New High Technology” status under the new EIT law in 2008)
CSI Solar Manufacture Inc.	18% (15% state tax + 3% local tax)	2-year exemption ended December 31, 2006 + 3 year half reduction ended December 31, 2009	12.5% (half reduction on 25%) for 2008 and 2009 and 25% for 2010 and after
CSI Cells Co., Ltd.	27% (24% state tax + 3% local tax)	2-year exemption ended December 31, 2008 + 3 year half reduction ended December 31, 2011	Exempted for 2008 and 12.5% for 2009, 2010 and 2011 (half reduction on 25%)
CSI Central Solar Power Co., Ltd.	33% (30% state tax + 3% local tax)	2-year exemption ended December 31, 2008 + 3 year half reduction ended December 31, 2011	Exempted for 2008 and 12.5% for 2009, 2010 and 2011 (half reduction on 25%)
Changshu CSI Advanced Solar Inc.	27% (24% state tax + 3% local tax)	2- year exemption ended December 31, 2009 + 3 year half reduction ended December 31, 2011	Exempted for 2008 and 2009 and 12.5% for 2010, 2011 and 2012 (half reduction on 25%)

Under the EIT Law and IRs issued by the State Council, PRC income tax at the rate of 10% is applicable to interest and dividends payable to investors that are “non-resident enterprises,” which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. If the Company is deemed to be a PRC “resident enterprise”, dividends distributed from the Company’s PRC subsidiaries to the Company, could be exempt from Chinese dividend withholding tax. However, dividends from the Company to ultimate shareholders would be subject to Chinese withholding tax at 10% or a lower treaty rate. Undistributed earnings of the Company’s foreign subsidiaries of approximately $49.3 million at December 31, 2008 are considered to be indefinitely reinvested and no provision for withholding taxes has been provided thereon.

Effective from January 1, 2007, the Company adopted FIN 48, which prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken in the tax return. This interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures.

11. INCOME TAXES — continued

The adoption of FIN 48 reduced retained earnings as of January 1, 2007, by $612,199, including interest and penalties, with a corresponding increase in the liability for uncertain tax positions. The aforementioned liability is recorded in liability for uncertain tax positions in the consolidated balance sheet. In accordance with the Company's policies, it accrues and classifies interest and penalties related to unrecognized tax benefits as a component of the income tax provision. The amount of interest and penalties as of January 1, 2007 was approximately $65,467, and the additional interest and penalties as of December 31, 2007 and 2008 was approximately $197,636 and $588,671, respectively. The Company does not anticipate any significant increases or decreases to its liabilities for unrecognized tax benefits within the next 12 months.

The Company is subject to taxation in Canada and China. The Company's tax years from 2004 through 2008 are subject to examination by the tax authorities of Canada. With few exceptions, the Company is no longer subject to federal taxes for years prior to 2005 and Ontario taxes for years prior to 2004. The Company's tax years from 2002 through 2008 are subject to examination by the PRC tax authorities due to its permanent establishment in China.

The Company's major operating entity in China is subject to examination by the PRC tax authorities from 2003 through 2008 on non-transfer pricing matters, and from inception through the end of 2008 on transfer pricing matters.

The following table indicates the changes to the recorded liabilities for the Company's unrecognized tax benefits for the years ended December 31, 2007 and 2008, respectively. The term "unrecognized tax benefits" in FIN 48 refers to the differences between a tax position taken or expected to be taken in a tax return and the benefit measured and recognized in the financial statements in accordance with the guidelines of FIN 48.

	At December 31, 2007	At December 31, 2008
	$	$
Beginning balance	612,199	2,278,482
Gross increases — additions for tax positions and the additional interest and penalties taken for the year	1,666,283	6,425,348
Ending balance	2,278,482	8,703,830

The principal components of deferred income tax assets are as follows:

	At December 31, 2007	At December 31, 2008
	$	$
Deferred tax assets:		
Accrued warranty costs	1,260,517	3,448,387
Issuance costs	2,748,710	3,163,556
Inventory write-down	247,982	2,138,259
Foreign tax credit	1,048,175	1,064,301
Debt discount	(3,894,200)	379,240
Net loss carried forward	1,123,320	—
Others	663,447	893,387
Total deferred tax assets	3,197,951	11,087,130
Analysis as:		
Current	2,218,983	4,121,627
Non-current	978,968	6,965,503
	3,197,951	11,087,130

11. 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,		
	2006	2007	2008
	$	$	$
Combined federal and provincial income tax rate	36%	36%	34%
Taxable income (loss) not included in pre-tax income (loss)	(5%)	817%	384%
Expenses not deductible for tax purpose	(55%)	(1,312%)	220%
Tax exemption and tax relief granted to the Company	16%	397%	(249%)
Effect of different tax rate of subsidiary operation in other jurisdiction	7%	154%	(176%)
FIN 48 liability	—	(168%)	372%
Change of tax rates in the following years	(2%)	75%	(161%)
Exchange gain (loss)	(2%)	49%	31%
	(5%)	48%	455%

The aggregate amount and per share effect of the tax holiday are as follows:

	Years ended December 31,		
	2006	2007	2008
	$	$	$
The aggregate dollar effect	1,429,352	1,345,726	5,281,258
Per share effect — basic and diluted	0.08	0.05	0.17

12. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted loss per share for the periods indicated:

	Years ended December 31,		
	2006	2007	2008
	$	$	$
Loss available to common stockholder — basic and diluted	($9,429,864)	($175,279)	($7,533,861)
Weighted average number of common shares — basic and diluted	18,986,498	27,283,305	31,566,503
Basic and diluted loss per share	$ (0.50)	$ (0.01)	$ (0.24)

Diluted loss per share calculation excludes 2,361,376, 468,947 and 790,933 common shares issuable upon the assumed conversion of the convertible debt, share options and restricted shares for 2006, 2007 and 2008, respectively, as their effect would have been anti-dilutive.

13. RELATED PARTY BALANCES AND TRANSACTIONS

Related party balances:

The amount due to related party as of December 31, 2008 is a government award payable to Mr. Shawn Qu, CEO, director and stockholder of the Company, who has beneficial interest in the Company.

The amount due to related party as of December 31, 2007 represents consulting fees payable to Swift Allies Inc., owned by Mr. Shawn Qu, CEO, director and stockholder of the Company. The amount of consulting fee payable was unsecured and interest free and was fully repaid during the year ended December 31, 2008.

Related party transactions:

The Company borrowed $30 million in June 2008 from Mr. Shawn Qu, CEO, director and stockholder of the Company, with an interest rate of 7%. The borrowing was used for working capital purposes and was repaid in December 2008.

During the years ended December 31, 2006, 2007 and 2008, the Company paid loan interest to Mr. Shawn Qu, CEO, director and stockholder of the Company, in the amount of $nil, $nil and $737,543, respectively.

14. COMMITMENTS AND CONTINGENCIES

a) Operating lease commitments

The Company has operating lease agreements principally for its office properties in the PRC. Such leases have remaining terms ranging from 1 to 97 months and are renewable upon negotiation. Rental expenses were $218,785, $521,778, $1,202,904 for the years ended December 31, 2006, 2007 and 2008, respectively.

Future minimum lease payments under non-cancelable operating lease agreements at December 31, 2008 were as follows:

December 31	$
2009	930,012
2010	514,708
2011	47,462
2012	29,884
2013 and after	124,516
Total	1,646,582

b) Property, plant and equipment purchase commitments

As of December 31, 2008, short-term commitments outstanding for the purchase of property, plant and equipment approximated $55,704,628.

c) Supply purchase commitments

In order to secure future silicon materials, solar wafers and solar cell supply, the Company entered into several long-term supply agreements with overseas and domestic suppliers in the past four years. Under such agreements, the suppliers agreed to provide the Company with specified quantities of silicon materials, solar wafers and solar cells, and the Company has made prepayments to these suppliers in accordance with the supply contracts. The prices of some supply contracts were pre-determined and others were subject to adjustment to reflect the prevailing market level when transactions occur.

The total purchases under these long-term agreements were $3 million, $50 million and $45 million in 2006, 2007 and 2008, respectively.

In addition, the Company has entered into several short-term purchase agreements with certain suppliers whereby the Company is committed to purchase a minimum amount of raw materials to be used in the manufacture of its products. As of December 31, 2008, future minimum purchases outstanding under the agreements approximated $25,822,140.

14. COMMITMENTS AND CONTINGENCIES — continued

c) Supply purchase commitments — continued

The following is a schedule, by year, of future minimum obligation under all supply agreements as of December 31, 2008:

Twelve Months Ending December 31:

2009	$ 296,344,577
2010	627,281,028
2011	765,861,464
2012	774,894,841
2013	738,161,388
Thereafter	1,354,886,978
Total	$4,557,430,276

15. SEGMENT INFORMATION

The Company primarily operates in a single reportable business segment that includes the design, development and manufacture of solar power products.

The following table summarizes the Company's net revenues generated from different geographic locations:

	Years ended December 31,		
	2006	2007	2008
	$	$	$
Europe:			
- Germany	38,787,860	206,740,573	438,101,658
- Spain	7,825,860	64,628,868	188,133,256
- Others	5,367,063	15,218,476	4,912,021
Europe Total	51,980,783	286,587,917	631,146,935
Asia:			
- China	14,091,562	6,608,046	25,356,557
- Others	109,061	6,996,651	16,214,174
Asia Total	14,200,623	13,604,697	41,570,731
America	2,030,850	2,605,057	32,288,690
Total net revenues	68,212,256	302,797,671	705,006,356

Substantially all of the Company's long-lived assets are located in the PRC.

16. MAJOR CUSTOMERS

Details of customers accounting for 10% or more of total net revenues are as follows:

	Years ended December 31		
	2006	2007	2008
	$	$	$
Company A	*	60,119,666	103,620,514
Company B	*	43,540,156	88,628,315
Company C	*	60,361,058	76,660,435
Company D	—	63,926,118	*
Company E	9,737,337	*	*
Company F	6,893,121	*	—
Company G	9,189,588	—	—

* Less than 10%

The accounts receivable from the three customers with the largest receivable balances represents 42%, 29%, 10% of the balance of the account at December 31, 2007, and 55%, 18%, 16% of the balance of the account at December 31, 2008, respectively.

17. EMPLOYEE BENEFIT PLANS

Employees of the Company located in the PRC are covered by the retirement schemes defined by local practice and regulations, which are essentially defined contribution schemes. The calculation of contributions for these eligible employees is based on 18% of the applicable payroll cost. The expense paid by the Company to these defined contributions schemes was $79,982, $351,822 and $1,408,764 for the years ended December 31, 2006, 2007 and 2008, respectively.

In addition, the Company is required by PRC law to contribute approximately 9%, 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 $87,281, $335,891 and $1,294,408 for the years ended December 31, 2006, 2007 and 2008, respectively.

18. SHARE OPTIONS

Prior to 2006, the Company did not grant share-based awards to employees, directors or external consultants who rendered services to the Company.

On May 30, 2006, the Board of Directors approved the adoption of a share incentive plan to provide additional incentives to employees, directors or external consultants. The maximum aggregate number of shares which may be issued pursuant to all awards (including options) is 2,330,000 shares, plus for awards other than incentive option shares, an annual increase to be added on the first business day of each calendar year beginning in 2007 equal to the lesser of one percent (1%) of the number of common shares outstanding as of such date, or a lesser number of common shares determined by the Board of Directors or a committee designated by the Board. The share incentive plan will expire on, and no awards may be granted after, March 15, 2016. Under the terms of the share incentive 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, 2008, there was $7,341,136 in total unrecognized compensation expense related to share-based compensation awards, which is expected to be recognized over a weighted-average period of 1.98 years. During the year ended December 31, 2006, 2007 and 2008, $3,612,911, $4,833,422 and $6,477,909 was recognized as compensation expense, respectively. There is no income tax benefit recognized in the income statement for the share-based compensation arrangements in 2006, 2007 and 2008.

18. SHARE OPTIONS — continued

Prior to November 15, 2006, the date of our initial public offering, the derived fair value of the ordinary shares underlying the options was determined by management based on a number of factors, including a retrospective third-party valuation using generally accepted valuation methodologies. Such methodologies included a weighted-average equity value derived by using a combination of the discounted cash flow method, a method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate and the guideline companies method, which incorporates certain assumptions including the market performance of comparable listed companies as well as the financial results and growth trends of the Company.

For all stock options granted before December 31, 2006, the Company used the Black-Scholes option-pricing model to estimate the fair value of each stock option grant. The use of a valuation model requires the Company to make certain assumptions with respect to selected model inputs. Effective from January 1, 2007, the Company began utilizing the Binomial option-pricing model as the Company believes that such model produces a more accurate result in estimating the fair value of stock options.

The following assumptions were used to estimate the stock options granted in 2006, 2007 and 2008:

	2006	2007	2008
Risk free rate	5.27%~5.72%	5.31%~6.15%	5.14%~5.95%
Average expected exercise term	6.13 years	n/a	n/a
Volatility ratio	66%~69%	79%~81%	78%~79%
Dividend yield	—	—	—
Annual exit rate	n/a	6%	8%
Suboptimal exercise factor	n/a	3.27	3.27~3.70

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, 2008	1,630,395	5.55		
Granted	217,336	34.00		
Exercised	(391,143)	4.95		
Cancelled or Forfeited	(87,715)	4.18		
Options outstanding at December 31, 2008	1,368,873	10.33	8 years	2,285,886
Options vested or expected to vest at December 31, 2008	1,298,614	10.41	8 years	2,150,374
Options exercisable at December 31, 2008	568,900	12.61	8 years	737,372

The weighted average grant-date fair values of options in 2006, 2007 and 2008 were $12.98, $6.13 and $22.15, respectively. The total intrinsic value of options exercised during the year ended December 31, 2006, 2007 and 2008 was $nil, $650,086 and $13,594,533, respectively.

Options and Restricted shares to Non-employees

On June 30, 2006, the Company granted 116,500 restricted shares to certain consultants for services to be rendered in the two-year period from the date of grant. These shares vested on the anniversary date of June 30, 2007 and 2008 on the straight-line basis. On April 13, 2007, the Company granted 11,650 share options to its external consultants in exchange for its consulting services. The options had an exercise price of $15 and vested immediately. The Company recorded compensation expenses of $488,392, $952,693 and $1,521,353 during the years ended December 31, 2006, 2007 and 2008 over the vesting period, with the final computation of fair value measured on the vesting date of these non-employee awards.

18. SHARE OPTIONS — continued

Restricted shares to Employees

The Company granted 333,190 and 116,500, restricted shares to employees in May 2006 and July 2006, respectively. The restricted shares were granted at nominal value and generally vest over periods from one to four years based on the specific terms of the grants. The difference between the exercise price of the options and the fair market value of the Company's ordinary share at the date of grant resulted in total compensation cost of approximately $7.1 million that will be recognized ratably over the vesting period. During the years ended December 31, 2006, 2007 and 2008, $2,043,576, $3,315,677 and $1,102,740 were amortized as compensation expenses, respectively.

As of December 31, 2008, there was $646,536 of total unrecognized share-based compensation related to unvested restricted share awards. That cost is expected to be recognized over an estimated weighted average amortization period of 1.57 years.

A summary of the status of the Company's unvested restricted shares granted to both employee and non-employee is presented below:

	Number of Shares	Weighted average grant-date fair value
		$
Unvested at January 1, 2008	311,055	15.83
Granted	—	—
Vested	(252,805)	16.22
Cancelled or Forfeited	—	—
Unvested at December 31, 2008	58,250	14.12

The total fair value of restricted shares vested during the year ended December 31, 2006, 2007 and 2008 was $nil, $4,138,995 and $6,365,572, respectively.

19. SUBSEQUENT EVENTS

Subsequent to December 31, 2008, the following events occurred:

During the first quarter of 2009, the Company executed several agreements with Chinese commercial banks for working capital loans totaling $41.7 million with maturities ranging from six months to one year and bearing interest from 2.936% to 5.310% per annum.

20. RECAST FINANCIAL INFORMATION

As described in Note 2 (x), effective January 1, 2009, the Company adopted the provision of FSP APB14-1.

The impact of adoption of FSP APB 14-1 on the consolidated financial statement line items as of and for the years ended December 31, 2008 and 2007 is illustrated in the following tables.

20. RECAST FINANCIAL INFORMATION — continued

Consolidated Statements of Operations:

	Year ended December 31, 2008		
	As Originally Reported	As Adjusted	Effect of Change
Interest expense	(11,265,576)	(12,201,293)	(935,717)
Gain on debt extinguishment	—	2,429,524	2,429,524
Foreign exchange gain (loss)	(20,087,375)	(19,989,123)	98,252
Income before income taxes	527,860	2,119,919	1,592,059
Income tax expense	(9,916,106)	(9,653,780)	262,326
Net loss	(9,388,246)	(7,533,861)	1,854,385

	Year ended December 31, 2007		
	As Originally Reported	As Adjusted	Effect of Change
Interest expense	(2,367,131)	(2,311,270)	55,861
Loss before income taxes	(394,654)	(338,793)	55,861
Income tax expense	184,978	163,514	(21,464)
Net loss	(209,676)	(175,279)	34,397

Consolidated Balance Sheets:

	At December 31, 2008		
	As Originally Reported	As Adjusted	Effect of Change
Prepaid expenses and other current assets	10,918,581	10,909,649	(8,932)
Total current assets	339,023,269	339,014,337	(8,932)
Deferred tax assets	6,997,918	6,965,503	(32,415)
Other non-current assets	299,038	263,281	(35,757)
Total assets	570,731,399	570,654,295	(77,104)
Convertible notes	1,000,000	830,362	(169,638)
Total liabilities	238,569,952	238,400,314	(169,638)
Common shares	294,707,048	395,153,795	100,446,747
Additional paid-in capital	35,537,691	(66,705,304)	(102,242,995)
Accumulated deficit	(12,992,818)	(11,104,036)	1,888,782
Total stockholders' equity	332,161,447	332,253,981	92,534
Total liabilities and stockholders' equity	570,731,399	570,654,295	(77,104)

20. RECAST FINANCIAL INFORMATION — continued

	At December 31, 2007		
	As Originally Reported	As Adjusted	Effect of Change
Prepaid expenses and other current assets	10,057,777	9,460,119	(597,658)
Total current assets	219,900,342	219,302,684	(597,658)
Deferred tax assets	3,965,886	978,968	(2,986,918)
Other non-current assets	3,431,321	135,548	(3,295,773)
Total assets	284,502,529	277,622,180	(6,880,349)
Convertible notes	75,000,000	59,884,744	(15,115,256)
Total liabilities	158,236,656	143,121,400	(15,115,256)
Additional paid-in capital	26,435,689	34,636,199	8,200,510
Accumulated deficit	(3,604,572)	(3,570,175)	34,397
Total stockholders' equity	126,265,873	134,500,780	8,234,907
Total liabilities and stockholders' equity	284,502,529	277,622,180	(6,880,349)

Consolidated Statements of Cash Flows:

	Year ended December 31, 2008		
	As Originally Reported	As Adjusted	Effect of Change
Net loss	(9,388,246)	(7,533,861)	1,854,385
Amortization of discount on debt	243,729	1,179,446	935,717
Gain on debt extinguishment	—	(2,429,524)	(2,429,524)
Deferred taxes	(621,658)	(982,236)	(360,578)

	Year ended December 31, 2007		
	As Originally Reported	As Adjusted	Effect of Change
Net loss	(209,676)	(175,279)	34,397
Amortization of discount on debt	55,861	—	(55,861)
Deferred taxes	(2,929,089)	(2,907,625)	21,464

Notes 2, 7, 9, 11, 12 and Schedule I has been modified as to the effect of adoption of FSP APB 14-1.

Additional Information — Financial Statements Schedule 1

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, 2007 and 2008 of $82,408,533 and $178,287,562 , respectively, exceeded the 25% threshold.

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

Financial Information of Parent Company

Balance Sheets

	December 31, 2007 $	December 31, 2008 $
ASSETS		
Current assets:		
Cash and cash equivalents	22,411,660	13,289,610
Accounts receivable, net of allowance for doubtful accounts of $204,382 and$5,062,312 at December 31, 2007 and 2008, respectively	59,990,021	46,682,715
Inventories	895,472	3,257,231
Advances to suppliers	3,359,795	1,005,903
Amounts due from related parties	43,250,443	83,496,732
Deferred tax assets	1,629,223	1,387,922
Prepaid expenses and other current assets	848,270	624,118
Total current assets	132,384,884	149,744,231
Advances to suppliers	4,102,711	12,528,000
Investment in subsidiaries	94,130,246	229,598,581
Deferred tax assets	622,198	5,479,787
Other non-current assets	—	3,021,418
TOTAL ASSETS	231,240,039	400,372,017
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	2,536,003	124,742
Amounts due to related parties	22,671,919	44,986,636
Other current liabilities	5,946,606	3,981,007
Total current liabilities	31,154,528	49,092,385
Accrued warranty costs	3,421,505	9,491,459
Convertible notes	59,884,744	830,362
Liability for uncertain tax positions	2,278,482	8,703,830
TOTAL LIABILITIES	96,739,259	68,118,036
Stockholder's equity:		
Common shares — no par value: unlimited authorized Shares, 27,320,389 shares issued and outstanding, as of December 31, 2007; 35,744,563 shares issued and outstanding, as of December 31, 2008	97,454,214	395,153,795
Additional paid-in capital	34,636,199	(66,705,304)
Accumulated deficit	(3,570,175)	(11,104,036)
Accumulated other comprehensive income	5,980,542	14,909,526
Total stockholders' equity	134,500,780	332,253,981
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	231,240,039	400,372,017

See notes to financial information of parent company.

Financial Information of Parent Company

Statements of Operations

	Years ended December 31		
	2006	2007	2008
	$	$	$
Net revenues	77,427,512	323,884,241	624,574,503
Cost of revenues	74,844,151	313,554,507	624,628,119
Gross profit (loss)	2,583,361	10,329,734	(53,616)
Operating expenses:			
Selling expenses	2,510,642	3,382,165	4,455,132
General and administrative expenses	5,903,722	12,504,867	19,553,100
Research and development expenses	76,084	405,784	622,383
Total operating expenses	8,490,448	16,292,816	24,630,615
Loss from operations	(5,907,087)	(5,963,082)	(24,684,231)
Other income (expenses):			
Interest expense	(1,598,415)	(353,318)	(4,400,736)
Interest income	304,636	316,175	3,557,683
Loss on change in fair value of derivatives related to convertible notes	(8,186,500)	—	—
Gain on debt extinguishment	—	—	2,429,524
Debt conversion inducement expense	—	—	(10,170,118)
Foreign exchange gain (loss)	(165,498)	2,582,256	1,888,000
Other — net	121,529	(140,972)	—
Loss before income taxes	(15,431,335)	(3,558,941)	(31,379,878)
Income tax expense	(125,606)	(166,605)	(9,840,655)
Equity in earnings of subsidiaries	6,127,077	3,550,267	33,686,672
Net loss	(9,429,864)	(175,279)	(7,533,861)
Loss per share — basic and diluted	$ (0.50)	$ (0.01)	$ (0.24)
Shares used in computation — basic and diluted	18,986,498	27,283,305	31,566,503

See notes to financial information of parent company.

Financial Information of Parent Company

Statements of Cash Flows

	Years ended December 31, 2006	2007	2008
	$	$	$
Operating activities:			
Net loss	(9,429,864)	(175,279)	(7,533,861)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	—	—	757
Allowance for doubtful debts	17,445	188,894	4,880,241
Loss on change in fair value of derivatives related to convertible notes	8,186,500	—	—
Amortization of discount on debt	722,053	—	1,179,446
Equity in earnings of subsidiaries	(6,127,077)	(3,550,266)	(33,686,672)
Share-based compensation	6,144,879	9,101,792	9,102,002
Gain on debt extinguishment	—	—	(2,429,524)
Debt conversion inducement expense	—	—	10,170,118
Changes in operating assets and liabilities:			
Inventories	(355,654)	1,519,318	(2,361,759)
Accounts receivable	(402,208)	(53,876,699)	8,430,376
Amounts due from related parties	(16,984,917)	(16,306,266)	(40,246,289)
Advances to suppliers	(2,469,789)	(1,742,545)	(6,074,708)
Other current assets	(316,269)	214,999	224,152
Accounts payable	(2,888,641)	2,026,184	(2,411,261)
Advances from customers	(1,607,870)	1,198,017	(1,483,914)
Amounts due to related parties	(1,786,340)	16,392,265	22,314,717
Accrued warranty costs	275,746	2,817,725	6,069,954
Other current liabilities	247,719	597,410	(100,189)
Liability for uncertain tax positions	—	1,666,283	6,425,348
Deferred taxes	168,049	(937,791)	2,068,575
Net cash used in operating activities	(26,606,238)	(40,865,959)	(25,462,491)
Investing activities:			
Investment in subsidiaries	(46,800,000)	(20,460,000)	(93,600,000)
Purchase of equity investment	—	—	(3,000,000)
Purchases of property, plant and equipment	—	—	(22,174)
Net cash used in investing activities	(46,800,000)	(20,460,000)	(96,622,174)
Financing activities:			
Proceeds from short-term borrowings	—	—	30,000,000
Repayment of short-term borrowings	(1,300,000)	—	(30,000,000)
Proceeds from issuance of convertible notes	3,650,000	75,000,000	—
Issuance cost paid on convertible notes	(571,315)	(2,970,138)	(381,900)
Proceeds from issuance of common shares, net off issuance costs	83,323,942	—	110,659,864
Proceeds from exercise of stock options	—	151,823	1,937,330
Net cash provided by financing activities	85,102,627	72,181,685	112,215,294
Effect of exchange rate changes	121,661	(4,789,309)	747,321
Net increase in cash and cash equivalents	11,818,050	6,066,417	(9,122,050)
Cash and cash equivalents at the beginning of the year	4,527,193	16,345,243	22,411,660
Cash and cash equivalents at the end of the year	16,345,243	22,411,660	13,289,610
Supplemental disclosure of cash flow information:			
Interest paid	(876,362)	(58,814)	(2,601,581)
Income taxes paid	—	(98,681)	—
Supplemental schedule of non-cash activities:			
Issuance cost included in other payable	—	(381,496)	—
Conversion of convertible notes to stockholders' equity	10,162,215	—	72,106,800

See notes to financial information of parent company.

CANADIAN SOLAR INC.

NOTES TO FINANCIAL INFORMATION OF PARENT COMPANY
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In U.S. dollars)

1. RECAST FINANCIAL INFORMATION

As described in Note 2 (x) to the consolidated financial statements, effective January 1, 2009, the Company adopted the provision of FSP APB14-1.

The impact of adoption of FSP APB 14-1 on the financial information line items of parent company as of and for the years ended December 31, 2008 and 2007 is illustrated in the following tables.

Statements of Operations:

	Year ended December 31, 2008		
	As Originally Reported	As Adjusted	Effect of Change
Interest expense	(3,465,019)	(4,400,736)	(935,717)
Gain on debt extinguishment	—	2,429,524	2,429,524
Foreign exchange gain	1,789,748	1,888,000	98,252
Loss before income taxes	(32,971,937)	(31,379,878)	1,592,059
Income tax expense	(10,102,981)	(9,840,655)	262,326
Net loss	(9,388,246)	(7,533,861)	1,854,385

	Year ended December 31, 2007		
	As Originally Reported	As Adjusted	Effect of Change
Interest expense	(409,179)	(353,318)	55,861
Loss before income taxes	(3,614,802)	(3,558,941)	55,861
Income tax expense	(145,141)	(166,605)	(21,464)
Net loss	(209,676)	(175,279)	34,397

1. RECAST FINANCIAL INFORMATION — continued

Balance Sheets:

	At December 31, 2008		
	As Originally Reported	As Adjusted	Effect of Change
Deferred tax assets — current	1,396,854	1,387,922	(8,932)
Total current assets	149,753,163	149,744,231	(8,932)
Deferred tax assets — noncurrent	5,512,202	5,479,787	(32,415)
Other non-current assets	3,057,175	3,021,418	(35,757)
Total assets	400,449,121	400,372,017	(77,104)
Convertible notes	1,000,000	830,362	(169,638)
Total liabilities	68,287,674	68,118,036	(169,638)
Common shares	294,707,048	395,153,795	100,446,747
Additional paid-in capital	35,537,691	(66,705,304)	(102,242,995)
Accumulated deficit	(12,992,818)	(11,104,036)	1,888,782
Total stockholders' equity	332,161,447	332,253,981	92,534
Total liabilities and stockholders' equity	400,449,121	400,372,017	(77,104)

	At December 31, 2007		
	As Originally Reported	As Adjusted	Effect of Change
Deferred tax assets — current	2,226,879	1,629,223	(597,656)
Total current assets	132,982,540	132,384,884	(597,656)
Deferred tax assets — noncurrent	3,609,116	622,198	(2,986,918)
Other non-current assets	3,295,775	—	(3,295,775)
Total assets	238,120,388	231,240,039	(6,880,349)
Convertible notes	75,000,000	59,884,744	(15,115,256)
Total liabilities	111,854,515	96,739,259	(15,115,256)
Additional paid-in capital	26,435,689	34,636,199	8,200,510
Accumulated deficit	(3,604,572)	(3,570,175)	34,397
Total stockholders' equity	126,265,873	134,500,780	8,234,907
Total liabilities and stockholders' equity	238,120,388	231,240,039	(6,880,349)

1. RECAST FINANCIAL INFORMATION — continued

Statements of Cash Flows:

	Year ended December 31, 2008		
	As Originally Reported	As Adjusted	Effect of Change
Net loss	(9,388,246)	(7,533,861)	1,854,385
Amortization of discount on debt	243,729	1,179,446	935,717
Gain on debt extinguishment	—	(2,429,524)	(2,429,524)
Deferred taxes	2,429,153	2,068,575	(360,578)

	Year ended December 31, 2007		
	As Originally Reported	As Adjusted	Effect of Change
Net loss	(209,676)	(175,279)	34,397
Amortization of discount on debt	55,861	—	(55,861)
Deferred taxes	(959,255)	(937,791)	21,464

EXHIBIT 99.4

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-152325 and 333-149497 on Form F-3 and No. 333-147042 on Form S-8 of our reports dated June 5, 2009 (October 13, 2009 as to the effect of adoption of FASB Staff Position APB No. 14-1 “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)”, effective January 1, 2009)(which report expresses an unqualified opinion and includes explanatory paragraphs relating to (1) the adoption of FASB interpretation No. 48, “Accounting for uncertainty in Income Taxes — An Interpretation of FASB Statement 109”, effective January 1, 2007 and (2) the change in method of accounting for convertible debt instruments to conform to FASB Staff Position APB No. 14-1 “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)”, effective January 1, 2009), relating to the financial statements and financial statement schedule of Canadian Solar Inc., appearing in this Current Report on Form 6-K of Canadian Solar Inc. dated October 13, 2009, and the effectiveness of internal control over financial reporting, appearing in the Annual Report on Form 20-F for the year ended December 31, 2008.

/s/ Deloitte Touche Tohmatsu CPA Ltd

DELOITTE TOUCHE TOHMATSU CPA LTD

Shanghai, China

October 13, 2009