Smart Decisions. Lasting Value.

Investing in Canada

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Introduction

Welcome to Crowe Canada's Investing in Canada guidebook.

This guide provides a quick reference for those interested in investing in Canada. With a diverse and inclusive economy, the largest research and development tax credit program in the world, and one of the most popular business hubs, it is easy to see why Canada is one of the leading countries for international companies to do business. While it is not exhaustive, this guide aims to answer some key questions that may arise when looking to invest in Canada. When specific issues do arise in practice, it will often be necessary to consider the relevant laws and regulations and to obtain appropriate professional advice. At Crowe, our advisors can determine the best paths for setting up your business in Canada, or help you determine the best choice for your situation and circumstances.

Establishing the Business Entity

When a foreign entity wishes to establish their business in Canada, there is an important question they need to consider–what form will the business take? Further, they should also reflect on any operational and/or tax consideration needs of the business.

Formation and Costs

Company

The main business entities in Canada typically take the form of one of four legal structures:

- Sole Proprietorships
- Partnerships
- Corporations
- Co-operatives

The above structures are usually governed by provincial or territorial sole proprietorship and partnership laws, except for corporations, which are generally governed by either federal or provincial corporate law.

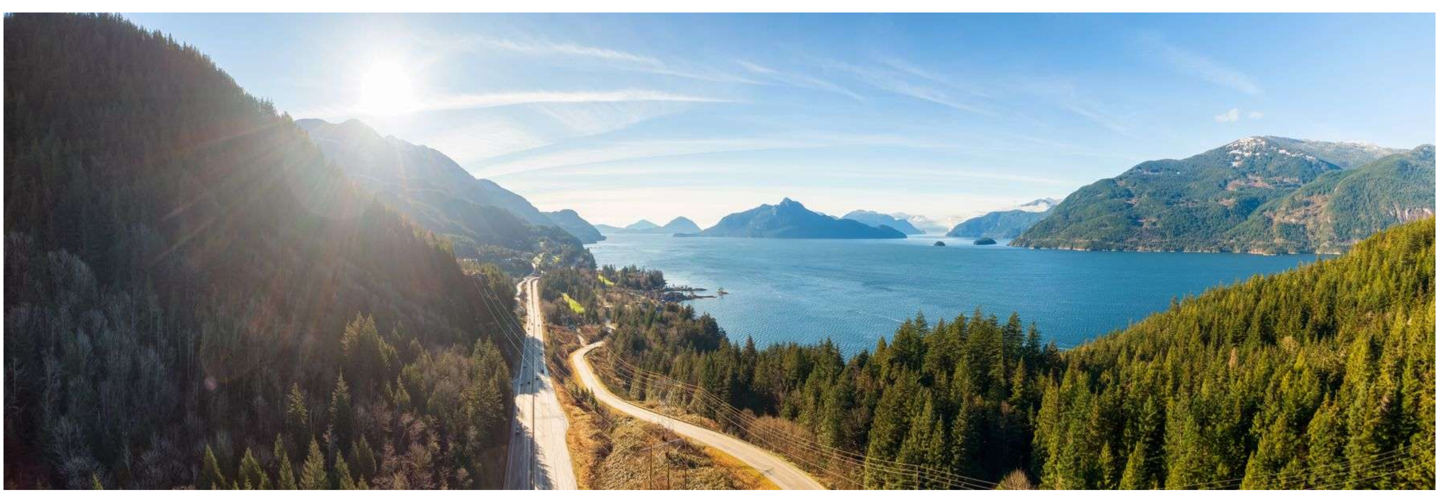
In Canada, business operations may also take the form of joint ventures, co-ownerships, branches, subsidiaries or foreign corporations.

Sole Proprietorships

This type of business organization is easy and inexpensive to form and provides the lowest amount of regulatory burden for carrying on business in Canada. The sole proprietor is fully responsible for all debts and obligations related to the business and all profits belong to the sole proprietor. There is no limited liability and a creditor could make a claim against the sole proprietor’s personal or business assets to pay off any debt.

Partnerships

There are two types of partnerships in Canada: the general partnership and the limited partnership. In a general partnership, a relationship exists between people carrying on a business with a view to profit. Financial resources are combined and put into the business. Each partner is jointly liable with the other partner(s) for the full extent of the partners' personal assets. With a limited partnership, there may be one or more general partners and one or more limited partners. A limited partner shares in the profits of this partnership in proportion to contributions made by the partner. The limited partner is only liable for debts to a finite amount.



Corporations

Incorporations can be completed at the federal or provincial/territorial level. A corporation must report income earned in a province where it carries on business through a permanent establishment. Professional advice in setting up a corporation is strongly advised.

An incorporated business is considered to be a legal entity that is separate from the shareholders. The shareholder of a corporation is not personally liable for the debts, obligations or acts of the corporation. Ordinarily, at least 25 per cent of the directors of a corporation must be Canadian residents, although corporations incorporated under certain provincial statutes do not have this requirement.

Branch operations of foreign corporations are required to register or be licensed as extra-provincial corporations in each province in which they carry on business.

Unlimited liability corporations (**ULCs**) are commonly used by American companies investing in Canada on a greenfield basis or through corporate acquisitions of Canadian entities or assets, particularly when those Canadian assets or operations are expected to generate business losses. In the case of a ULC, shareholders are liable for unlimited amounts of any liability, act or default of the corporation. ULCs have been abolished in Canadian corporate law in most jurisdictions in the country with the exception of Alberta, Nova Scotia and British Columbia.

Co-operatives

A less common business structure is the cooperative, which is a business that is owned and controlled by an association of members who come together to meet common economic, social or cultural needs and aspirations. It can be used for the production or distribution of goods or the supply of services. Earnings of the co-operative are distributed based on the members' use of the co-operative rather than their level of investment. Co-operatives have elected boards of directors and appointed officers.

Branch or Subsidiary

A foreign corporation can carry on business in Canada through a branch that has a permanent establishment in Canada or by incorporating a Canadian subsidiary.

A branch is considered to be an extension of the non-Canadian parent corporation, whereas a subsidiary is a federally- or provincially-incorporated business and a separate legal entity from its parent.

For multiple reasons, including taxation and operating efficiency, many foreign companies choose to set up a subsidiary rather than branch operations.

Branches are taxed at the same rate as subsidiary corporations and branch profits not reinvested in the Canadian branch are subject to a 25 per cent tax, unless the rate is reduced under an applicable tax treaty.

Representative Office

A foreign corporation can also carry on business in Canada without having a permanent establishment. Examples might include soliciting orders or offering something for sale in Canada through an agent-resident in Canada.

Investment Incentives

Company / Branch / Representative Office

Broadly speaking, there are few restrictions on foreign investment in Canada; however, some screening does take place and certain sectors have special limits imposed on them at the federal and provincial levels.

Investment Canada is a federal agency that must approve foreign investments in the country, whether through a new venture or an acquisition, where the investment meets a review threshold of $5 million for direct investments and $50 million for indirect transactions. Investors from World Trade Organization member countries benefit from higher thresholds.

Under the North American Free Trade Agreement (**NAFTA**), special conditions exist for investments by American or Mexican companies.

The Department of Canadian Heritage must approve investments in the cultural sector, such as filmmaking and distribution, book publishing, audio or video music recording and distribution, among others.

There are a range of incentives offered by the Canadian federal and provincial governments to encourage companies to invest in capital equipment, hire and train employees and to be more competitive in domestic and export markets. Such incentives include loan guarantees, funding and tax incentives.

A federal refundable investment tax credit (**ITC**) of up to 35 per cent of qualified expenditures on scientific and experimental development (**SRED**) is available for certain Canadian-controlled private corporations (**CCPCs**). A non-refundable federal ITC of up to 15 per cent is accessible for CCPCs that are not eligible for the refundable ITC and for non-CCPCs. There are also provincial incentives for SRED available. Federal and provincial tax incentives are also obtainable for various forms of media and environmental improvements.

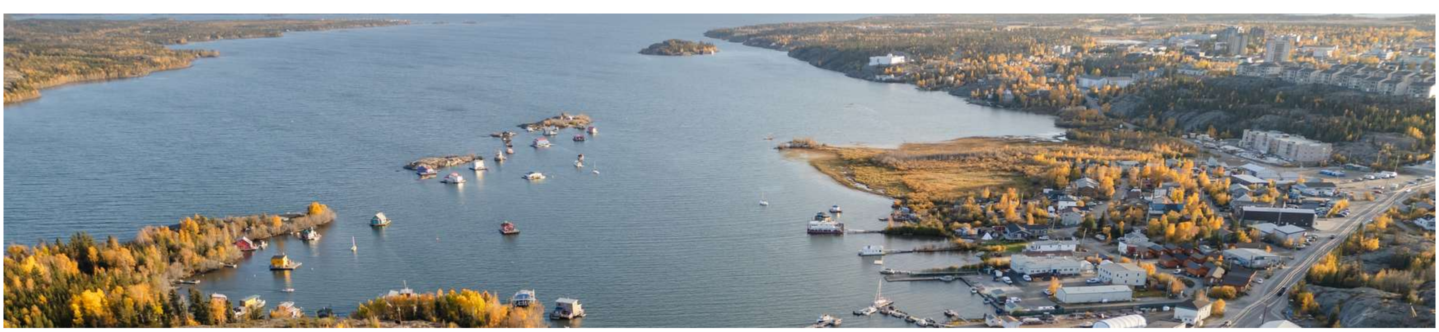
To strengthen Canada's anti-money laundering regime, cash transactions of $10,000 CAD or more and international electronic fund transfers of $10,000 CAD or more must be reported to the Financial Transactions and Reports Analysis Centre of Canada (**FINTRAC**).

Foreign Ownership Restrictions

Company / Branch / Representative Office

There are certain Canadian federal and provincial laws that may restrict or limit foreign ownership of Canadian businesses when such investments are contrary to Canada's domestic interests, or which may otherwise impose obligations on significant foreign investment in Canada.

Whether directly or via portfolio holdings, foreign investment in Canada is limited in several key areas, including banking, media and communications, cultural businesses and air and rail transport.



Work Permits and Visas

Company / Branch / Representative Office

In order to work in Canada on a temporary basis, most foreign workers require a temporary work permit. Normally, these permits are issued for one year; however, longer terms may be granted under certain circumstances and renewals are possible.

An offer of employment from a Canadian employer is usually required before the worker is granted a Temporary Work Permit by Employment and Social Development Canada (**ESDC**). An employer may need to pay an employer compliance fee.

There are certain job categories where a foreign worker may not need a work permit. These include athletes and coaches, performing artists and students. However, other rules may apply for business visitors or business people.

A foreign worker may also need to obtain a Temporary Resident Visa in order to enter Canada, depending on his or her country of citizenship.

*For a full list, visit the Government of Canada's Immigration and Citizenship website: www.cic.gc.ca.

Accounting Standards

Company / Branch / Representative Office

Requirements for an entity to prepare and issue financial statements are established by the laws and regulations applicable to the entity or by contract. Reporting entities that prepare financial statements in accordance with Canadian generally accepted accounting principles (**GAAP**) apply the requirements of the CPA Canada Handbook - Accounting based on their specific facts and circumstances.

Publicly accountable enterprises, other than pension plans, apply International Financial Reporting Standards (**IFRS**) Accounting Standards, while private enterprises apply either IFRS Accounting Standards or Canadian accounting standards for private enterprises. Not-for-profit organizations apply either IFRS Accounting Standards or Canadian accounting standards for not-for-profit organizations. Last, pension plans apply Canadian accounting standards for pension plans.

Residential Directors/ Promoters Requirements

Company / Branch / Representative Office

There are different directors' residency requirements forcompanies or corporations in Canada depending on the jurisdiction.

At the federal level, at least 25 per cent of the directors of a corporation must be Canadian residents. If a corporation has fewer than four directors, at least one director must be a Canadian resident.

The province of Manitoba has similar residency requirements as at the federal level. Speak with your Canadian advisor to ensure the residency requirements are met for the jurisdiction in which your company operates.

Foreign Ownership Over Tangible Assets

Company / Branch / Representative Office

With some exceptions, there are few restrictions on foreign investment in Canada–although, there are screenings for certain sectors that are subject to special limits at both the federal and provincial levels. Foreign investment is subject to a review process pursuant to the Investment Canada Act (the Act). The Act provides the federal government with a mechanism to review significant investments in Canada or foreign investment in the country that may raise national security concerns.

The Act applies to all “non-Canadians,” which includes any person that is not a Canadian citizen or permanent resident of Canada, as well as any entity that is not controlled or beneficially owned by Canadians.

The Act contains two separate review processes that are subject to differing thresholds and procedures. They also consider various factors. The first process provides a review for significant investments over a certain specified financial threshold. This amount is currently adjusted on an annual basis. The process deliberates whether an investment would be “of net benefit to Canada.” The second process applies to any investment by a non-Canadian in or into Canada regardless of the size. It analyzes whether the investment might reasonably be expected to injure national security in Canada.

In addition to the provisions of the Act, both federal and provincial governments impose corporate ownership restrictions in strategic or sensitive industries, such as financial institutions, broadcasting, telecommunications and air transportation.

*For more information on the review processes, visit the Innovation, Science and Economic Development Canada website: https://www.ic.gc.ca/eic/site/ica-lic.nsf/eng/home.

Tax Information

All businesses operating in Canada are required to register with the Canada Revenue Agency (**CRA**) to receive a business number. This number will allow the business to pay and claim sales tax, income taxes and payroll taxes such as the Canada Pension Plan (**CPP**).

Tax Rates on Corporate Income

Both the federal and provincial governments levy tax on a corporation's income from a business. The general Canadian corporate federal tax rate is 15 per cent. The general provincial corporate tax rate ranges from 8-16 per cent depending on the province in which the corporation carries on business. Below are the 2024 combined general federal and provincial corporate tax rates:

- Alberta - 23 per cent
- British Columbia - 27 per cent
- Manitoba - 27 per cent
- New Brunswick - 29 per cent
- Newfoundland and Labrador - 30 per cent
- Northwest Territories - 26.5 per cent
- Nova Scotia - 29 per cent
- Nunavut - 27 per cent
- Ontario - 26.5 per cent
- Prince Edward Island - 31 per cent
- Quebec - 26.5 per cent
- Saskatchewan - 27 per cent
- Yukon - 27 per cent

Corporations that are CCPCs throughout a tax year may be eligible to claim the small business deduction (**SBD**). The SBD reduces the tax rate that a corporation would otherwise have to pay on the first $500,000 CAD of active business income, assuming all specific qualifications are met.

The federal net tax rate after the SBD is nine per cent for 2024 and subsequent tax years. The 2024 combined federal and provincial net tax rate that applies to income eligible for the SBD will range from nine to 12.2 per cent depending on the province in which the income is earned.

Other Taxes

Personal Income Tax

Individuals are required to file a personal income tax return in Canada for each year they have taxes payable, which can occur when personal income is earned in Canada. This holds true even if taxes are withheld at source, such as by an employer, and such withholding exceeds the amount of tax actually payable. A return is required in order to obtain a refund of any over-withheld taxes.

Canada taxes individuals on income earned using a progressive system, meaning that, as taxable income increases, the tax rates also increase. For 2024, the highest federal tax rate is 33 per cent and the highest provincial tax rates range from 11.5-21 per cent depending on the province. The highest combined federal and provincial personal tax rate for 2024 reaches upwards of 54 per cent depending on the province in which an individual is a resident.

Depending on their personal circumstances, individuals may also be entitled to personal tax credits and deductions for various expenses incurred during the year.

Value Added Tax (VAT)

Canada levies a Goods and Services Tax / Harmonized Sales Tax (**GST/HST**) that is similar to VAT in other countries. The GST/HST is a tax that applies to most supplies of goods and services provided in or imported into Canada.

Almost everyone must pay the GST/HST on purchases of taxable supplies of property and services. Businesses are required to obtain a GST/HST registration number if total gross revenue is more than $30,000 CAD over four consecutive calendar quarters. Registrants must charge and account for the GST/HST on taxable supplies of property and services carried out in Canada.

GST/HST registrants may recover the GST/HST paid on purchases and expenses related to the registrant's commercial activities by claiming input tax credits. GST/HST registrants must file GST/HST returns on a regular basis, collect the tax and remit any resulting net tax owing.

The GST/HST rate can range anywhere between five to15 per cent depending on which province in Canada the goods and services are supplied.

Certain supplies of property and services are taxable at the rate of zero per cent, including basic groceries, agricultural products, prescription drugs and medical devices.

A limited number of goods and services are exempt from GST/HST altogether, such as legal aid services, most health, medical and dental services performed by licensed physicians, educational services and most services provided by financial institutions such as arrangements for a loan or mortgage.

Provincial Sales Taxes

In addition to the GST/HST, four provinces impose their own provincial sales tax with different rules, registration and filing requirements. Three of those provinces (Manitoba, Saskatchewan and British Columbia) impose a retail sales tax while the province of Quebec imposes a VAT that is, for the most part, fully harmonized with the GST/HST.

Luxury Tax

A 10 per cent luxury tax also applies to the sale or importation of certain vehicles and aircraft priced above $100,000 and certain vessels priced above $250,000.

Payroll Taxes

Employers in Canada are responsible for deducting CPP contributions, employment insurance (**EI**) premiums and income tax from remuneration paid. Employees must remit these amounts to the government.

Employers are required to contribute 5.95 per cent of remuneration paid to each employee for CPP (up to a maximum of $4,055.50 CAD for 2024) and 1.66 per cent (x 1.4 for employers) of remuneration paid for EI premiums (up to a maximum of $1,468.77 CAD for 2024).

Excise Duties

Excise duties are charged on spirits, wine, beer and tobacco products. The rates differ for each product. When these goods are manufactured in Canada, duty is payable on the goods at the point of packaging. When imported, duty is payable by the importer at the time the goods are imported.

Property Taxes

Owners of real estate in Canada are required to pay property tax. The amount of property tax paid is based on the current use and the estimated market value of the real estate.

Branch Income

The majority of Canada's bilateral tax treaties generally provide that the business profits of a foreign enterprise carrying on business in Canada will only be taxable in Canada if those profits are attributable to a permanent establishment situated in Canada. A permanent establishment is generally defined to include a branch, office, agency and other fixed place of business.

If a business is carried on in Canada through a branch operation, any income attributable to that branch will be taxed in Canada in the same way as if it had been earned directly by a subsidiary in Canada. The rates that will apply are the same corporate rates outlined above.

An additional "branch tax", equal to 25 per cent of the after-tax profits of the branch operations not being reinvested in Canada, will also be payable. The branch tax is a proxy for the withholding tax that would normally have to be paid on dividends declared if the branch operations had instead been carried out through a Canadian subsidiary.

Many of Canada's bilateral tax treaties impose reduced branch tax rates and may additionally provide for an exemption to the branch tax in respect of the first $500,000 CAD of branch profits.

Income Determination

Generally, business income is reported using the accrual method of accounting. Under the accrual method, income is reported in the fiscal year it is earned, regardless of when the income is received. Allowable expenses are deducted in the fiscal period in which they have incurred, whether or not they are paid for in that specific period. The law requires businesses to keep records of all transactions to support income and expense claims.

Farmers, fishers, or self-employed commissioned sales agents are allowed to use the cash method, under which income is reported in the year it is received and allowable expenses are deducted in the year in which they are paid.

Fifty per cent of capital gains realized on the disposition of capital property are included in the taxpayer's income and taxed at the ordinary rates. Capital losses are generally only deductible against capital gains.

Effective for capital gains realized on or after June 25, 2024, the government has proposed an increase to the capital gains inclusion rate from 1/2 to 2/3. For individuals only, the first $250,000 of capital gains realized in a tax year will still be eligible for the 50 per cent capital gains inclusion rate. This lower inclusion rate on the first $250,000 of capital gains realized will not be available for corporations. As of the date of this publication, these rules are still proposed and have not yet been enacted into Canadian law.

Deductions

Generally, any reasonable current expense that is paid or payable and incurred to earn business income is deductible against taxable business income. The amount deductible in a given year depends on whether the expense is considered a current-year expense or a capital expense. Personal expenses are non-deductible.

If business expenses are deducted from taxable income, businesses must be able to support these expense claims. All business-related vouchers and receipts should be maintained and all expenses should be accurately recorded.

Group Taxation Policies

Canada does not have a formal corporate group taxation system. Each legal entity in a corporate group is taxed on a stand-alone basis and is required to file a tax return separate from other corporations within the group. However, Canada does realize that there is a need for integration within a corporate group to ensure its tax system is effective. For example, all corporations within a group must share the SBD (referred to above).

As a result of a non-formal corporate group taxation system, Canada generally allows transactions to take place between related corporations that take advantage of each other's tax attributes. Various financing arrangements and reorganizations within a corporate group are viewed favourably by the CRA. These transactions can be used, for example, to consolidate losses within a group. The purpose of the favourable viewing is to ensure Canada's tax system is competitive.

Tax Incentives

Canada provides various tax incentives to corporations both at the federal and provincial level. Incentives usually vary by province.

Foreign Tax Credits

Where a Canadian resident taxpayer has foreign-sourced income and pays foreign taxes on this income, the taxpayer is usually eligible for a foreign tax credit in Canada. The need for foreign tax credits arises because Canada taxes its residents on worldwide income. The foreign tax credit is generally limited to the amount of Canadian taxes that would be payable on the foreign-sourced income. The credit is available both at the federal and provincial levels.

Industry Incentives

Canada and its provinces offer many incentives, usually in the form of tax credits, to corporations in various industries. Incentives are also provided to corporations that undertake various activities.
The following industries/activities are eligible for beneficial incentives:

- Film, TV and digital media production, computer animation and special effects;
- Manufacturing and processing;
- Research and development;
- Environmental sustainability; and
- Hiring apprentices and co-op students.

Withholding Tax

Amounts paid to non-residents of Canada are generally subject to withholding tax at a rate of 25 per cent. This rate applies to most forms of passive-type income including interest, dividends, rents, management fees and royalties. The onus is on the payer to withhold and remit this tax to the CRA. The payer is also required to report the amount paid to the nonresident in prescribed form to the CRA.

In many cases, the required rate of withholding is reduced pursuant to a tax treaty between Canada and the non-resident's country of residence. For example, where interest is paid from a Canadian resident to a U.S. resident, the required rate of withholding is reduced to zero per cent per the Canada-U.S. Tax Treaty. These treaties must be consulted to determine the appropriate rate of withholding on any form of payment.

Tax Administration

Canada administers tax through a self-assessment system. Taxpayers are liable to prepare and file prescribed tax returns on a timely basis. Aside from the provinces of Quebec and Alberta, which require separate tax returns, tax returns of other provinces are integrated with the federal tax return and filed as one return.

Corporate taxpayers are required to file their returns within six months of the corporation's year-end. These taxpayers are also generally required to make tax installment payments throughout the year. These payments provide for a credit against taxes owing upon filing of the return.

Individual taxpayers are required to file their returns by April 30 of the following calendar year. Where individuals or their spouses or common-law partners have self-employment income, the deadline is June 15 of the following calendar year.

Individual taxpayers are subject to source deductions on employment income. Some individuals may also be required to make installment payments throughout the year. These payments provide for a credit against taxes owing upon filing of the return.

The tax authorities will issue a notice of assessment within a short time frame of filing of the return. These assessments are usually of limited review by the authorities. The corporation or individual may, however, be subject to audit by the relevant tax authority to ensure tax returns are filed correctly. The authorities use a risk assessment method to select which corporations or individuals require an audit.

Taxable Income for Nonresidential Companies and Individuals

Non-resident Companies

Non-resident corporations that carry on business in Canada may be subject to Canadian tax on their Canadian-sourced net income. Amounts paid to non-resident corporations for services performed in Canada are subject to a federal withholding tax at a rate of 15 per cent. The province of Quebec imposes an additional withholding tax at a rate of nine per cent where services are performed in the province of Quebec. The non-resident corporation would then be required to file a Canadian corporate tax return, determining its final Canadian tax liability for the year.

As discussed previously, the majority of Canada's bilateral tax treaties generally provide that the business profits of a foreign corporation carrying on business in Canada will only be taxable if those profits are attributable to a permanent establishment in Canada. Where there is no permanent establishment in Canada, the foreign entity is not subject to Canadian tax. However, the foreign entity is still required to file a corporate tax return for the year, referred to as a "treaty-based return." The treaty based return is a simplified version of a regular corporate tax return and must be filed to claim the treaty exemption.

Where business is carried on through a branch in Canada, any income attributable to that branch will be taxed in Canada and will be subject to the additional branch tax as discussed above. The corporation will be required to file a regular corporate tax return.

Non-resident Individuals

Where a non-resident individual earns employment income in Canada, the individual is typically subject to withholding at personal tax rates and is required to file a Canadian tax return for the year.

Many of Canada's bilateral tax treaties exempt a non-resident individual from Canadian tax where the individual meets one of the following requirements:

- Remuneration earned in Canada does not exceed $10,000 CAD in the calendar year; or
- The non-resident individual is present in Canada for a period of less than 183 days in any 12-month period commencing or ending in the calendar year and the remuneration is paid by a corporation or individual who is not a resident of Canada and does not have a permanent establishment in Canada.

If one of the above conditions are met, the non-resident individual is not subject to tax in Canada and is generally not required to file a tax return. An individual can also apply for a waiver of withholding with the tax authorities where one of the above conditions is met. However, where an individual was subject to payroll withholding, they must file a tax return to obtain a refund of amounts withheld.

Where a non-resident individual carries on business in Canada, the rules mirror those of non-resident corporations that carry on business in Canada.

Other Pertinent Information

Canada's tax system is largely premised on a form over substance basis; therefore, ambiguity in Canadian tax law exists. Different entities may take different positions based upon similar facts. This requires entities that carry on business in Canada to manage tax risk to avoid taking aggressive tax positions that may be challenged by the Canadian tax authorities. In any case, it is prudent to seek the guidance of tax professionals proficient in Canadian tax requirements.

IPO Quick Facts

An IPO, or an initial public offering, is when a private company decides to sell shares publicly. The company issues shares of stocks to the public and lists these securities on a stock exchange. Companies go public primarily to acquire more capital from outside of the company for the expansion or improvement of its business operations.

The Five Stages of an IPO

The process of launching an IPO is complex, however there are five major milestones that need to be met in order to achieve a smooth and efficient process:

1. Initiation – There are several critical factors in the initial stages of an IPO, which include: determining the expected valuation of the company's equity; preparing a business plan; preparing financial statements; undertaking tax planning and corporate restructuring; and selecting an experienced team of lawyers, auditors and underwriters.

2. Drafting and Filing a Prospectus with the Securities Regulators – A company will compile a preliminary prospectus, a document that contains financial statements and other information about the company and then file that with the appropriate securities commissions.

Under National Policy 11-202, *Process for Prospectus Reviews in Multiple Jurisdictions*, the company can access markets in several jurisdictions by dealing with only one securities authority through a "passport system", which acts as a passport for the company for other jurisdictions.

3. Pricing – A "roadshow," or marketing effort, commences and underwriters determine if there is interest in the new issue. Based on the investor interest, the underwriters will determine the pricing of the shares and the volume that will be issued. The initial terms will be adjusted according to the investor demand of the new shares.

4. The Final Prospectus – Once all comments are received from the regulators, the company will obtain clearance to file the final prospectus. You must also ensure the Toronto Stock Exchange (**TSX**) or Toronto Venture Exchange (**TSX-V**) or other applicable stock exchange has provided a conditional letter of approval to issue shares.

5. Closing and Listing – After the final prospectus is filed, a decision document is issued by the regulator. At closing, securities are issued, proceeds from the issue are delivered to the issuer and shares begin trading on the applicable stock exchange.

Presently, there are four major stock exchanges in Canada: TSX, TSX-V, Canadian Securities Exchange (**CSE**) and Cboe Canada (**Cboe**).

TSX

A company looking to list on the TSX must meet specified minimum financial, distribution and other requirements, including:

- Evidence of pre-tax earnings from on-going operations for the current or next fiscal year of at least $300,000;
- Pre-tax cash flow of $700,000 in the last fiscal year and an average pre-tax cash flow of $500,000 for the past two fiscal years;
- Net tangible assets of $7,500,000;
- Working capital to carry on the business and an appropriate capital structure;
- Management, including the board of directors, should have adequate experience and technical expertise relevant to the company's business and industry, as well as adequate public company experience;
- Companies are required to have at least two independent directors;
- A minimum of 1,000,000 free trading public shares having an aggregate market value of $4,000,000; and
- 300 public shareholders each holding a board lot or more.

*The TSX lists companies in district categories based on their industry sector, historical financial performance and financial resources. The foregoing is based on TSX exempt industrial companies. The minimum financial, distribution and other requirements may differ depending on the category of the company.
*All funds are in Canadian dollars.

TSX-V

The minimum requirements for the TSX-V include:

- $5,000,000 net tangible assets or $5,000,000 in revenue. (If no revenue, two-year management plan demonstrating reasonable likelihood of revenue within 24 months);
- Adequate working capital and financial resources to carry out stated work program or execute a business plan for 18 months following listing, plus $200,000 in unallocated funds;
- Issuer has significant interest in business or primary asset used to carry on business;
- History of operations or validation of business;
- Management, including board of directors, should have adequate experience and technical expertise relevant to the company's business and industry, as well as adequate public company experience in Canada or a similar jurisdiction;
- Companies are required to have at least two independent directors;
- A public float of 1,000,000 shares;
- 250 public shareholders, each holding a board lot and having no resale restrictions on their share;
- 20 per cent of issued and outstanding shares in the hands of public shareholders; and
- A sponsor report may be required.

*The TSX-V lists companies in district categories based on their industry sector, historical financial performance and financial resources. The foregoing is based on Tier 1, industrial or technology or life sciences companies. The minimum requirements may differ depending on the category of the company.
* All funds are in Canadian dollars.

Canadian Securities Exchange

The CSE primarily serves junior equities. It offers simplified reporting requirements, compared to the TSX or Cboe, which are both senior exchanges.

The CSE has specific listing requirements. Some of those include:

- Well managed and are adequately financed with clearly stated objections;
- Operating company with revenue from the sale of goods and services or non-operating company with financial resources to carry out a proposed work plan or achieve stated objectives for 12 months following listing, subject to a minimum of $200,000 in working capital at the time of listing;
- 150 public board lot holders;
- A public float of at least 1,000 shares;
- A minimum of 20 per cent of issued and outstanding listed shares held by the public;
- A minimum of $0.10 IPO price conducted concurrent to the listing; and
- For pre-revenue companies, no shares issued for less than $0.005 in previous 24-month period.

* Based on the requirements for an issuer of equity securities.
* All funds are in Canadian dollars.

Cboe Canada

The Cboe (formerly, NEO Exchange Inc. and Aequitas NEO Exchange Inc.) is another senior exchange. The Cboe has specific listing requirements. Some of those include:

- Either (i) shareholders' equity of at least $5,000,000, (ii) net income of at least $750,000, (iii) market value of securities to be listed of at least $50,000,000 or (iv) total assets and revenue of at least $10,000,000;
- Adequate working capital to carry on business for 12 months and appropriate capital structure;
- At least 150 public board lot holders;
- A public float of at least 1,000,000 shares; and
- Expected market value of public float of at least $10,000,000.

*All funds are in Canadian dollars.

Other Exchange Options

- **The Montréal Exchange** (**MX**), Canada's oldest exchange, is a fully electronic exchange dedicated to the development of the Canadian derivative markets. Their products are tailored to meet their domestic and international clients' expanding needs in risk management.
- **ICE Futures Canada** (**ICE**), which was formerly named the Winnipeg Commodity Exchange, is a subsidiary of the Intercontinental Exchange, which provides a market for agricultural futures and options, as well as ICE Futures Europe and ICE Futures US.
- **NASDAQ Canada** offers market agnostic smart routing, improving trading efficiencies and facilitating best execution for clients, with enhanced connectivity to dark pools. They also acquired **Chi-X Canada**, a leading alternative market in Canada for the trading of TSX and TSX-V-listed securities.

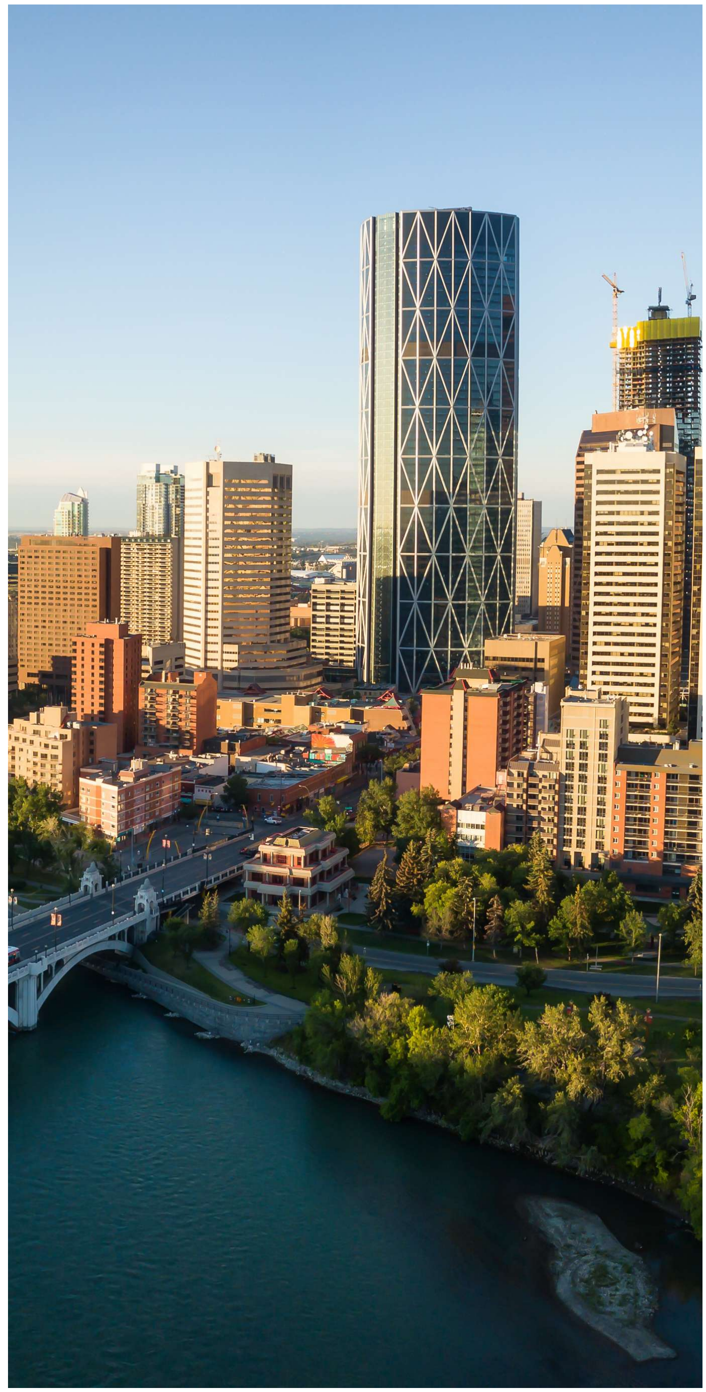
- **CME Group Exchanges**, which are comprised of Chicago Mercantile Inc. (**CME**), Board of Trade of the City of Chicago, Inc. (**CBOT**), Commodity Exchange, Inc. (**COMEX**) and New York Mercantile Exchange, Inc. (**NYMEX**), are commodity futures and options exchanges based in the United States.
- **Nodal Exchange** is a commodity futures exchange.
- **Bloomberg Trading Facility Limited** is a multilateral trading facility for cash bonds, repos, credit default swaps, interest rate swaps, exchange-traded funds, equity derivatives and foreign exchange derivatives.
- **ICE NGX Canada Inc.** (**NGX**), is a subsidiary of the Intercontinental Exchange, which operates an electronic trading system and a clearing and settlement system based in Calgary, for the trading and/or clearing and settlement, respectively, of contracts in natural gas, electricity, heat rate and crude oil products.

Cannabis Companies

Canadian securities exchanges have different positions as to whether companies with cannabis operations in the U.S. may be listed. Listed companies with ongoing business activities that violate U.S. federal law regarding marijuana are not in compliance with the requirements of the TSX or the TSX-V. However, the CSE and Cboe allow the listing of companies with cannabis operations in the US.

Restrictions to Foreigners

Each of the TSX, the TSX-V, CSE and Cboe permit the listing of a foreign company. Each exchange may impose certain additional restrictions or requirements on a foreign company seeking listing in Canada and foreign companies seeking to list in Canada should consult their professional advisors to ensure all such restriction and requirements are complied with.



The Accountant's Role

Accounting Standards and Preparing Financial Statements

Prior to Listing

Historical annual financial statements required to be included in the prospectus or offering document must be audited and interim financial statements for the current fiscal year must be reviewed. The audit opinion is required to be unqualified, except for very limited circumstances. The preparation and review of the historical financial statements can serve both as a chance to review the company's operations and valuable practice for the routine financial reporting with which the company will be required to comply once it is public.

Care should be taken to include predecessor companies and acquired companies where applicable. Auditors are asked to address questions related to the appropriateness of management's accounting policies, their knowledge of allegations of fraud or suspected fraud, existence and effective operation of internal controls, significant changes in revenue/ sales, commitments and contingences and any communications with regulatory bodies.

After Listing

Following the listing, the reporting issuer is required to comply with the continuous disclosure obligations, which include filing audited annual financial statements within a defined period following the year-end. A reporting issuer has the option of having the audit firm perform a review of their interim financial statements prior to them being filed. If the interim financial statements have not been reviewed, the reporting issuer must file them with a notice that states that fact.

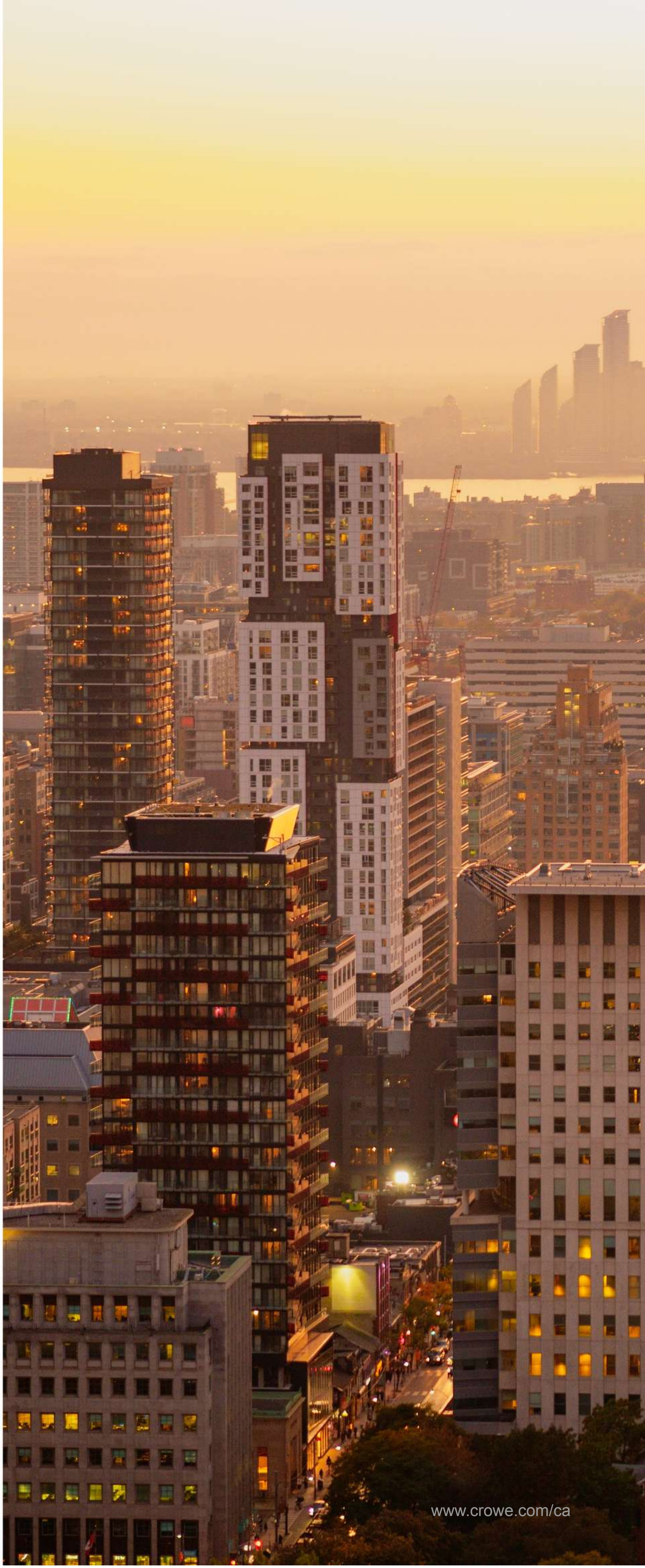
Requirements of Auditors to be Appointed

An auditor's report filed by a reporting issuer must be prepared and signed by a person or company that is authorized to sign an auditor's report under the laws of a jurisdiction of Canada or a foreign jurisdiction and that meets the professional standards of that jurisdiction. The auditor must be registered with the Canadian Public Accountability Board (**CPAB**). CPAB is Canada's audit regulator, protecting the investing public's interests and contributing to public confidence in Canada's capital markets.

Most companies, whether Canadian or foreign, conducting an IPO in Canada, are required to prepare financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (**IASB**).

Financial statements must generally be accompanied by an auditor's report without reservation. If a company is conducting a Canada-U.S. IPO (or is already an SEC-reporting company), it will usually be able to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (**U.S. GAAP**) instead of IFRS. In such case, no reconciliation to IFRS would be required.

A company's financial statements should be audited in accordance with Canadian generally accepted auditing standards (**GAAS**); International Standards on Auditing; or U.S. GAAS and the standards of the U.S. Public Company Accounting Oversight Board.



Alternatives to an IPO

There are several options by which an company may obtain a listing on the public markets in Canada. As mentioned, the initial public offering is one such method, but there are others.

The Capital Pool Company (CPC) Program

This method involves a shell public company acquiring an operating private business or asset typically in a reverse takeover. The program is available on the TSX-V only. The transaction is referred to as a "Qualifying Transaction."

Special Purpose Acquisition Corporations (SPAC)

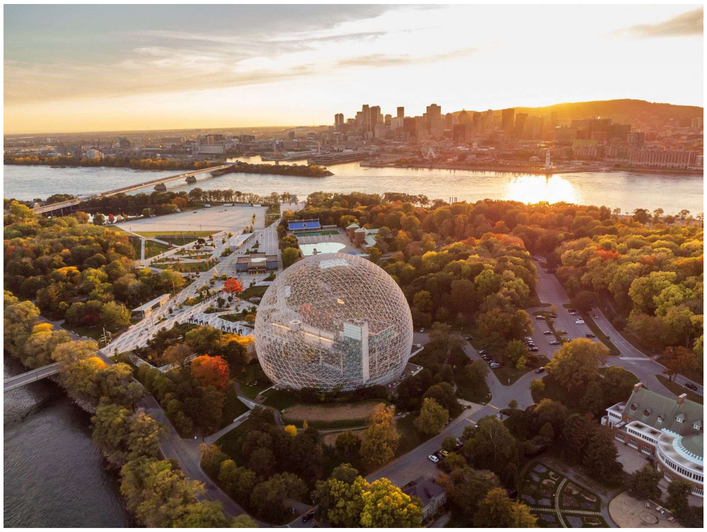
SPACs are investment vehicles that allow the public to invest in businesses or assets usually sought by private equity firms. A SPAC is initially a shell company with no previous operational history that goes public through an IPO raising at least $30 million CAD, with the intention of using the proceeds to acquire a business by acquiring either shares or assets.

Reverse Takeovers (Backdoor Listings)

This occurs when an issuance of securities of a listed company results, directly or indirectly, in the shareholders of a listed company owning less than 50 per cent of the shares or voting power of the resulting company, with an accompanying change of effective control of the listed company.

Graduation

Entities that list on the TSX-V often grow to the point that they meet the listing requirements of the TSX. Graduation can be an efficient and cheap method of listing on the more senior exchange.



Delisting Standards

A reporting issuer may be delisted at any time if the TSX is satisfied that the issuer has failed to comply with any of the provisions of the listing agreement or with any other TSX requirement or if delisting is necessary in the public interest.

- Delisting criteria vary by entity, but generally, the following examples apply to all issuers:
- Insolvency;
- Financial conditions and/or operating results;
- Market value and publication distribution;
- Failure to comply with TSX requirements and policies; and
- Change in business.

Human Resource Requirements

Special Labour Standards

Labour standards exist at the federal and provincial levels in Canada. Most businesses are provincially regulated for employment purposes. Businesses that operate on a large scale across provincial borders, such as banks, broadcasters and airlines, are federally regulated. The remainder fall under their respective provinces' jurisdiction.

Federally-regulated businesses are governed by the Canada Labour Code, which sets out minimum standards to which employers must adhere in areas such as hours of work and health and safety.

Provincially regulated businesses are governed by provincial employment standards and legislation, which provide the minimum standards for employees in such areas as minimum wage, minimum daily pay, meal breaks, hours of work, overtime, pregnancy, parental and personal leaves, termination, deductions, record keeping, sexual harassment, vacation pay and statutory holidays.

Hours of Work

The standard is eight hours a day and 40 hours per week. Maximum number of hours worked per week is 48.

There are separate guidelines for specific industries and professions in each province that may exceed or limit the standard daily or weekly hour limits.

Wages, Pay and Deductions

Minimum wages are set federally and by each province or territory. Some exceptions exist, primarily in the food and beverage industries. The federal minimum wage for 2024 is $17.30 per hour. Below are the 2024 hourly wages for employees working in provincially regulated sectors:

- Alberta - $15.00
- British Columbia - $17.40
- Manitoba - $15.80
- New Brunswick - $15.30
- Newfoundland and Labrador - $15.60
- Northwest Territories - $16.05
- Nova Scotia - $15.20
- Nunavut - $19.00
- Ontario - $17.20
- Prince Edward Island - $16.00
- Quebec - $15.25
- Saskatchewan - $15.00
- Yukon - $17.59

Termination of Employment

Termination of employment and protection for employees on cessation of employment are very important components covered by Canadian legislation. Requirements vary by jurisdiction, but there are significant obligations regarding termination and severance pay.

Harassment, Discrimination and Other Legislation

Employees in Canada are protected from harassment and discrimination in connection with their employment by way of several statutes. The Canada Labour Code addresses federally regulated workers and provincial Human Rights Codes provide the same protections for provincially regulated workers.

There is also extensive health and safety legislation in all jurisdictions that seeks to ensure that all Canadian workplaces are free from physical dangers as well as emotional and psychological ones, such as workplace bullying. There is also legislation that requires that businesses are barrier-free for workers with disabilities of all kinds.

Employers must adhere to all employment-related legislation and provide training and information to all workers to help them understand their rights and responsibilities under each piece of legislation.

Social Welfare: Insurance, Pension, etc.

Healthcare

All provinces in Canada provide universal, publicly-funded healthcare for services that are considered to be “medically necessary.”

In some provinces, healthcare is funded in part by a tax paid by employers that is based on the size of the business.

Employment Insurance

In Canada, workers pay 1.66 per cent of their insured earnings in return for benefits should they lose their jobs. Employers contribute 1.4 times the amount of employee premiums. There is no government contribution to this fund. The amount received and how long a person can remain on EI varies with the person’s previous salary, how long the person was working and the unemployment rate in their jurisdiction. Some provinces have additional types of insurance required for employees.

Workers' Compensation in Canada

In Canada, workers' compensation is a system of compulsory no-fault insurance for workplace injuries. The system is administered by statutory corporations or commissions established under the legislation of each province and territory.

Requirements for Retirement Benefits

Canada provides several public pension plans, the most prevalent of which are the Canada Pension Plan (**CPP**) and Old Age Security (**OAS**), described below. Most seniors are eligible for OAS, a taxable monthly social security payment that is not dependent on employment history. Most former workers can also receive CPP or the Quebec Pension Plan (**QPP**) benefits based on an individual’s contributions during their careers.

Many workers also have private pension plans through their employers, although that has become less common. There is a government tax shelter for investments known as a Registered Retirement Savings Plan (**RRSP**) that many people take advantage of. In Quebec, companies with 10 or more employees have to provide its employees with some means of saving for retirement; such as an RRSP or a Voluntary Retirement Savings Plans (**VRSP**).

The CPP (as well as provincial pension plans, as applicable) is funded by mandatory contributions made by employees and matched by their employers. Beginning January 1, 2024 there is an additional CPP contribution (**CPP2**) that must be deducted on earnings above the annual maximum pensionable earnings. For a list of the current CPP rates, maximums and exemptions, see the annual chart provided by the CRA.

Full CPP benefits can be applied for at age 65, or an individual can receive partial CPP as early as age 60, or at age 70 with an increase in monthly payments. To receive this benefit, one must have worked in Canada and made at least one valid contribution to the CPP in terms of one paid form of employment.

If an individual does not fulfill the above criteria for CPP, it may be possible to qualify for OAS if they have lived or contributed to an OAS plan in a country with which Canada has established a social security agreement.

Legal Annual Leave and Public Holidays

Vacation and General Holidays

There are four national statutory holidays in Canada - New Year's Day, Canada Day, Labour Day and Christmas Day. There are additional statutory holidays that are observed federally and in different provincial jurisdictions.

Leave

Of particular note to foreign businesses considering operating in Canada, is the extensive rights for new parents.

Depending on the province or whether federally goverend, maternity/pregnancy leave is available for up to 17 weeks of unpaid time off work and is offered to mothers who cannot work because they are pregnant or have recently given birth. Parental leave is unpaid time off work offered to parents who are caring for a newborn or newly-adopted child. There are two duration options for this portion of the leave, standard parental benefit of 52 weeks or extended parental benefit for 78 weeks. Two parents can share either leave option. In most cases, seniority is retained and the employer must reinstate the employee to his or her original position at the end of the leave.

There are additional unpaid and partially paid leaves that vary by province. These leaves allow job security for individuals who are struggling with specific life situations such as a critically ill family member or the death of a child. Typically, these leaves do not require an employer to continue to pay their salary, but guarantee an employee their position if they return to work within a specific period of time.

Brief Information on Labour Unions

In Canada, unionized employees are often represented by a few large unions and labour congresses. There are also smaller unions and independent labour organizations that represent a specific group of workers.

There are four types of unions in Canada:

- National;
- International;
- Independent local organization; and
- Directly chartered local.

Withdrawal Procedures

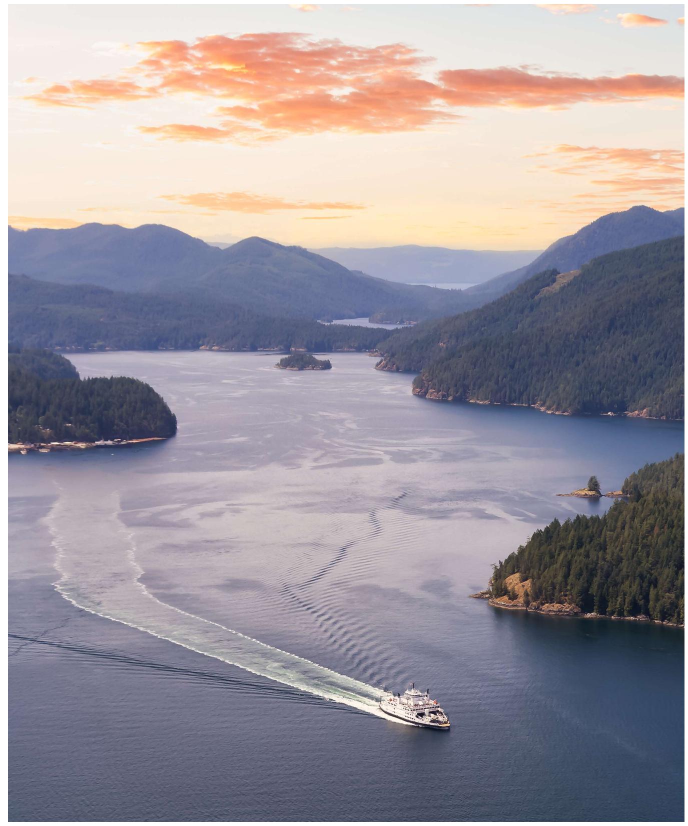
Company: Legal Procedures Required for Liquidation

There are certain legal procedures that are necessary for a business planning to close in Canada. These include such tasks as notifying the CRA, filing a final tax return and paying any outstanding tax amounts.

If the business number is no longer required, there are certain forms that must be completed before the account can be closed.

Below is a list of procedures that are necessary when closing a business:

- Cancel the business registration for the sole proprietorship or partnership;
- Voluntarily dissolve the corporation;
- File a last tax return if a corporation is dissolved;
- Close RST/PST/QST accounts with the appropriate provincial agency;
- Close GST/HST accounts with the CRA; and
- Close payroll accounts with the CRA.



Company Tax Requirements

When a corporation wishes to permanently dissolve, the corporation is required to apply for dissolution with the relevant government body. The dissolution is typically dissolved under the Canada Business Corporations Act (**CBCA**) or relevant provincial business corporation acts. The articles of dissolution issued by the government body is required to be filed along with the final return of income for the corporation. A corporation is not relieved of its obligation to file a
tax return until the articles of dissolution form is sent to the CRA.

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