This publication is a joint project with pwc

HSBC
The world's local bank

Doing business in Canada

Contents

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The materials contained in this publication were assembled in November 2010 and were based on the law enforceable and information available at that time.

Executive summary

Canada offers excellent opportunities for non-residents that invest or do business there. Foreign investment that provides identifiable benefits to Canada and its citizens is welcome.

Canada is a 'mosaic' of global cultures, which includes large Asian, South-Asian and European communities. Canada welcomes thousands of new immigrants every year and its multicultural environment makes it easier for new investors to settle there.

Geographically, Canada is comprised of 10 provinces and three territories. It is a parliamentary democracy with a stable government and currency. Its workforce is highly skilled and its residents enjoy a high standard of living. The recent global economic downturn started later in Canada than in other countries and its effect has been more moderate than elsewhere.

Key foreign investor considerations include:

- Canada has a free market and private enterprise predominates.
- Corporate formation is simple and inexpensive.
- Canadian financial institutions have been acknowledged as being among the most financially sound in the world. Its capital markets rank among the largest and most active in the world.
- Government incentives are available, especially in less-developed regions. Tax incentives apply to various forms of capital investment and for certain industries and targeted activities.
- The federal general corporate tax rate will be reduced in stages from 18% to 15% by 1 January 2012. The federal government is seeking collaboration from the provinces and territories to reduce their combined federal and provincial/territorial corporate income tax rates to 25% by 2012.
- The federal government and the territories do not impose a general capital tax. Provincial general capital taxes will be eliminated by 1 July 2012.
- Inter-corporate dividends can generally be received tax free.
- Canada has an extensive network of tax treaties that provide for reduced withholding tax rates. Under Canada's domestic law, most interest paid to arm's length non-residents is exempt from withholding tax.
- Combined federal and provincial/territorial tax rates on employment income and ordinary income have generally remain unchanged.

Foreword

The Canadian economy has been very resilient during the international economic downturn of the last two years. HSBC Bank Canada has been able to manage these challenges successfully. We draw great strength from being a member of the HSBC Group, one of the most strongly capitalised and liquid banks in the world, which has enabled us to continue to support the financial services needs of our customers.

HSBC's growth in Canada has been strong, expanding from a single office in 1981 to become this country's leading international bank, and seventh largest bank overall. Today, HSBC Bank Canada is the only Canadian bank with a truly global reach, and is the international bank with the widest footprint across Canada.

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, has more than 260 offices, including over 140 bank branches, and is the leading international and trade finance bank in Canada. With around 8,000 offices in 87 countries and territories and assets of US$2,418 billion at 30 June 2010, the HSBC Group is one of the world's largest banking and financial services organisations.

The purpose of this guide, co-written by HSBC and PricewaterhouseCoopers LLP (PwC), is to provide you with an introduction to the Canadian marketplace and shared insights based on our many years operating here.

On behalf of HSBC Bank Canada, I hope that you find this guide useful. We look forward to working with you.

Lindsay Gordon

President and Chief Executive Officer
HSBC Bank Canada

Introduction

Doing business in Canada

Canada is the largest country in the western hemisphere and the second largest in the world. Its government and currency are stable and it has a highly skilled workforce. Canada's official languages are English and French, with English being the predominant language spoken, except for the province of Quebec and some smaller regions. Canada is a multicultural country and its residents enjoy a high standard of living. The country has a well-developed transportation system and is rich in natural resources. Canada is the world's leading producer of potash and is a major producer of uranium, aluminium, cobalt and other minerals.

Canada has a thriving free-market economy, with businesses ranging from small owner-managed enterprises to multinational corporations. Canada's economic development was historically based on the export of agricultural staples, especially grain, and on the production and export of natural resource products, such as minerals, oil and gas and forest products. However, secondary industry in Canada evolved to the stage where Canada ranked as one of the top manufacturing nations of the world. The service industry has expanded rapidly and has transformed the Canadian economy from one that was based on manufacturing to one that is now largely service-based.

Canada is one of the world's major trading nations. The United States is its primary trading partner. Given its natural resources, skilled labour force, and modern industrial facilities, Canada enjoyed solid economic growth from 1993 through 2007. Canada's major banks emerged from the financial crisis of 2008-2009 among the strongest in the world.

Foreign investor considerations

Foreign investment is generally welcome, provided that there are economic benefits to Canada and its citizens. Foreign investment and management that improve local employment conditions are well received by the labour force. The labour force tends to be receptive if the foreign investment creates jobs with wages and working conditions comparable to those in the existing industry in Canada. Many government incentives are available, especially in less-developed regions and are generally available to all investors, including foreigners that carry out qualifying activities.

The acquisition of a Canadian business by a non-Canadian may require notification to Investment Canada or approval under the Investment Canada Act. Proof of economic benefit to Canada is required for any large takeovers. Many industries are also regulated to various degrees by federal, provincial and territorial legislation. All forms of business entities are available to foreigners and foreign branches and subsidiaries may qualify for federal, provincial and territorial incentive programmes.

Canada has an open economy with relatively few import restrictions. There are no foreign exchange controls and there are no restrictions imposed on repatriation of capital or earnings. In addition, no special rules apply for the computation of taxable income or tax payable by non-residents and relief from double taxation is available to residents and non-residents. Special concessions may also be available for foreigners working in Canada, including eligibility for social security benefits.

Key economic statistics

Table 1: Gross Domestic Product (GDP), 2007-2009

	Current (C$ billions)	Adjusted[1] (C$ billions)	Annual change (adjusted)%	GDP per capita
2007	1,530	1,219	2.3	46,450
2008	1,600	1,227	0.6	48,013
2009	1,527	1,195	-2.6	45,292

1. Dollar values have been adjusted to a 2002 reference year using a 'chained' methodology described in http://www.statcan.gc.ca/concepts/cf/8102792-eng.htm.
Source: Adapted from Statistics Canada website http://www40.statcan.gc.ca/l01/cst01/econ03-eng.htm, extraction date 21 October 2010 and Statistics Canada publication, Gross Domestic Product by Industry, Catalogue no. 15-001-X, July 2010, vol 24, no. 7, Table 1-3, page 14, http://www.statcan.gc.ca/pub/15-001-x/15-001-x2010007-eng.htm.

Table 2: Gross Domestic Product at Basic Prices by Industry, 2007-2009

(In billions of adjusted 2002 Canadian dollars[1])	2007	2008	2009
Agriculture, forestry, fishing and hunting	27.6	28.0	26.2
Mining and oil and gas extraction	57.8	56.0	51.4
Manufacturing	181.3	170.4	151.1
Construction industries	72.3	75.6	69.2
Utilities	31.6	31.2	29.9
Transportation and warehousing	57.7	58.0	56.0
Information and cultural industries	44.6	45.4	45.3
Wholesale trade	70.1	70.4	66.0
Retail trade	71.7	73.8	73.5
Finance, insurance, real estate, renting, leasing, management	240.6	245.2	250.9
Professional, scientific and technical	59.2	60.6	60.4
Administrative, waste management, and remediation services	30.8	31.2	30.1
Public administration	69.1	71.2	73.2
Educational services	58.4	60.2	61.3
Healthcare and social assistance	76.7	78.9	81.1
Arts, entertainment and recreation	11.1	11.1	11.2
Accommodation and food services	26.5	27.2	26.7
Other services	31.4	32.1	31.9
Total – All industries	1,218.5	1,226.5	1,195.4

1. Dollar values have been adjusted to a 2002 reference year using a 'chained' methodology described in http://www.statcan.gc.ca/concepts/cf/8102792-eng.htm.
Source: Adapted from Statistics Canada publication, Gross Domestic Product by Industry, Catalogue no. 15-001-X, July 2010, vol 24, no. 7, Table 1-3, page 14, http://www.statcan.gc.ca/pub/15-001-x/15-001-x2010007-eng.htm.

Table 3: Major Trading Partners, 2009

	Exports %	Imports %
United States	75.0	51.2
Mexico	1.1	4.5
Germany	1.0	2.9
United Kingdom	3.4	2.6
Other EU	3.8	6.8
China	3.3	10.9
Japan	2.4	3.4
Other countries	10.0	17.7
Total	100.0	100.0

Source: Adapted from Statistics Canada publication, Canadian International Merchandise Trade, Catalogue no. 65-001-X, December 2009, vol. 63, no. 12, Tables 3-2, 4, 7-2 and 8, pages 21 to 25 and 33 to 37, http://www.statcan.gc.ca/pub/65-001-x/65-001-x2009012-eng.pdf.

Table 4: Merchandise Trade, 2007-2009

(In millions of Canadian dollars)	2007	2008	2009
Exports	463,120	489,995	369,529
Imports	415,683	443,752	374,097
Net balance	47,437	46,244	-4,568

Source: Adapted from Statistics Canada publication, Canadian International Merchandise Trade, Catalogue no. 65-001-X, August 2010, vol. 64, no. 8, Table 1-1, page 16, http://www.statcan.gc.ca/pub/65-001-x/65-001-x2010008-eng.pdf.

Table 5: Direct Investment, 2007-2009

(In millions of Canadian dollars)	2007	2008	2009
Canadian direct investment abroad	513,140	641,641	593,291
Foreign direct investment in Canada	510,139	540,830	549,400

Source: Adapted from Statistics Canada website, http://www40.statcan.gc.ca/l01/cst01/econ08-eng.htm, extraction date 21 October 2010.

Table 6: Foreign Direct Investment in Canada by Selected Industry, 2009

(In billions of Canadian dollars)	2009
Manufacturing	
Primary metal	38.7
Chemical	30.0
Petroleum and coal	31.0
Food, beverage and tobacco	23.8
Transport equipment	25.4
Paper and wood products	11.0
Computers and electrical equipment	6.1
Other	29.2
Mining and oil and gas extraction	
Oil and gas extraction and support	78.9
Mining	25.4
Finance and insurance	71.9
Wholesale and retail trade	50.2
Management of companies	59.9
Professional, science and technical	13.6
Other	54.3
Total – All industries	549.4

Source: Adapted from Statistics Canada, CANSIM Table 376-0052, International investment position, Canadian direct investment abroad and foreign direct investment in Canada, by NAICS and region, annual (dollars) (table), CANSIM (database), using E-STAT (distributor), http://estat.statcan.gc.ca/cgi-win/cnsmcgi.exe?Lang=E&EST-Fi=EStat/English/CII_1-eng.htm, extraction date 27 October 2010.

Conducting business in Canada

Forms of business

Canadian law is based on the British common-law system, except in Quebec, where a civil-law system prevails. The principal forms of business enterprise available in Canada are the following:

- **Corporation –**
  Whether public or private, incorporated federally, provincially or territorially, a Canadian corporation is a legal entity distinct from its shareholders.

- **Partnership –**
  A business relationship between two or more 'persons' (i.e., individuals, corporations, trusts or other partnerships) formed for the purpose of carrying on business in common. A partnership is not treated as a legal entity distinct from its partners.

- **Sole proprietorship –**
  An unincorporated business operated by an individual that is carried on under the individual's own name or a trade name.

- **Trust –**
  A relationship whereby property (including real, tangible and intangible) is managed by one person (or persons, or organisations) for the benefit of another. Trusts may hold commercial enterprises.

- **Joint venture –**
  Generally, refers to the pursuit of a specific business objective by two or more parties whose association will end once the objective is achieved or abandoned. A joint venture is not treated as a legal entity distinct from the participants.

Foreign investors usually conduct business in Canada through one or more separate Canadian corporations, although during the start-up period operation as a branch of a profitable foreign corporation may be preferable. In addition, foreign investors may participate as partners in partnerships or as joint venturers carrying on business in Canada.

Setting up a business

Corporations

Formation procedures
Formation of a corporation in Canada is relatively simple and inexpensive. The detailed procedure to be followed depends on the jurisdiction in which the corporation will be incorporated, but the steps are generally similar throughout Canada.

Capital structure
Generally, only financial institutions, such as banks and securities dealers, have minimum or maximum capital requirements. In most Canadian jurisdictions, including the federal jurisdiction, par-value shares are not permitted, and the amount added to the stated capital account in respect of a share generally must equal the value for which the share was issued. Shares can be issued in different classes.

Duties of shareholders, directors and officers
The directors of a corporation are charged with the management of the operations of the corporation and have exclusive authority to appoint and remove the officers, including the president. Shareholders are normally not liable for the debts, liabilities or acts of a limited liability corporation. Directors can be held personally liable if gross negligence or a breach of trust on their part can be proven. They may also be liable for such things as employees' unpaid wages and the payment of certain taxes. Officers derive their authority from the articles and bylaws of the corporation, from resolutions of directors and from corporate statutes.

Books and records
Generally, federal, provincial and territorial corporation statutes require the maintenance of adequate accounting records, which can be maintained in any form that is capable of reproducing the required information in paper form within a reasonable time. A corporation that wishes to keep its accounting records outside Canada should obtain the approval of the tax authorities.

Liquidation and receivership
The rule of thumb is that a voluntary liquidation of a company must be authorised by a two-thirds vote of the shareholders cast at a special meeting convened for that purpose. In certain cases, the federal, provincial or territorial government can liquidate companies within its jurisdiction. A receiver or a receiver-manager is appointed to take charge of corporate property to pay off the relevant liabilities, subject to the rights of other creditors. A receiver-manager may carry on the corporation's business.

Branch of a foreign corporation
A foreign corporation that chooses to use a branch to carry on business in Canada should license or register the branch in each province in which it wishes to carry on business. It must keep proper branch accounting books and records and file tax and other returns required by federal, provincial, territorial and municipal authorities, similar to those required from corporations incorporated in Canada. Also, see discussion under *Branch tax* on page 18.

Unlimited liability companies
While most corporate statutes provide for limited shareholder liability, several of the provinces (Alberta, British Columbia and Nova Scotia) permit the formation of unlimited liability corporations (ULCs). These entities are commonly used for tax planning purposes.

Partnerships

The two types of partnerships in Canada, general and limited, have the same powers but differ in formation, registration and the liability of the members to each other and the public.

A partnership is formed when two or more persons carry on a business in common with a view to profit. A partnership is generally based on a written partnership agreement that indicates the intentions of the partners with respect to a wide variety of organisational and operational matters. Proper books and records must be maintained by the partnership and the partnership may be required to file an annual partnership return. For Canadian tax purposes, a partnership is treated as a conduit, and the partners are taxed on their share of the partnership income (determined at the partnership level), whether or not distributed.

Joint ventures

Parties in a joint venture generally enter into a written agreement. Many arrangements that are styled as joint ventures may be partnerships for Canadian tax purposes. Whether a partnership exists in a particular situation is a question of fact. Individual members of a joint venture recognise their share of the revenue and expenses of the venture in computing income for tax purposes, so that the joint venture is treated as a conduit. The major difference for tax purposes between a partnership and a joint business venture that is not a partnership is the absence of specific statutory rules to govern the taxation of a joint business venture.

Regulatory environment

Regulation of business
Each level of government exercises some control over commerce and industry in Canada, ranging from licensing requirements at the municipal level to regulation of ownership of certain companies at the federal level. Regulations concerned with business include the Investment Canada Act, which regulates foreign investment, and the Competition Act, which protects competitive markets.

Restrictions on foreign investment
Significant investments in Canada by non-residents are reviewed under the Investment Canada Act to ensure the investment will contribute to Canada's economic growth and employment opportunities. The Investment Canada Act requires a foreign investor to notify Industry Canada of an investment to establish a new Canadian business or to acquire control of a Canadian business within 30 days of the transaction. Some exemptions are available. Statutory restrictions apply to foreign ownership in certain industries.

Foreign exchange administration

Administration framework
There is no foreign exchange administrative body in Canada. No specific types of currency accounts are required of foreign investors or traders.

Foreign exchange controls
Canada imposes no exchange controls and no special exchange rates apply to specific transactions.

Repatriation of capital and earnings
Repatriation of capital or earnings of a Canadian business to non-resident investors is not restricted. There are no exchange or regulatory restrictions on borrowing from abroad, the remitting of dividends, interest, royalties and similar payments, management fees and loan repayments, or the settling of trade debts.

Guarantees against inconvertibility
No government or similar guarantees are available against inconvertibility.

Taxation in Canada

Corporation Income Tax

Corporations resident in Canada are subject to Canadian income tax on worldwide income. Relief from double taxation is provided through Canada's international tax treaties, the foreign tax credit mechanism and by deductions for foreign taxes paid on certain foreign source income.

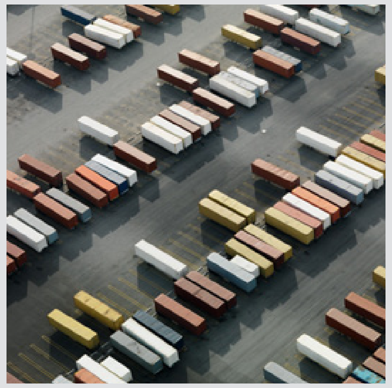
Canada also has a comprehensive anti-deferral regime that applies to passive income earned by controlled foreign affiliates.

Non-resident corporations are subject to income tax on income derived from carrying on a business in Canada and on capital gains arising on the disposition of taxable Canadian property. However, Canada's treaties exempt from Canadian income tax business profits that are not attributable to a Canadian permanent establishment and capital gains from the disposition of many taxable Canadian properties. Therefore, a non-resident corporation with business profits attributable to a Canadian permanent establishment may prefer to operate this business through a branch or a Canadian subsidiary.

Withholding tax at a rate of 25% is imposed on interest (other than most interest paid to arm's length non-residents), dividends, rents, royalties, certain management and technical service fees, and similar payments, made by a Canadian resident to a non-resident of Canada. The withholding tax can be reduced or eliminated if Canada has a treaty with the non-resident's country of residence. See *Withholding taxes* on page 22.

Taxes on corporate income

The following combined federal/provincial (or territorial) corporate income tax rates apply for 31 December 2010 year ends. For non-resident corporations, the rates apply to business income attributable to a permanent establishment in Canada. Different rates may apply to non-resident corporations in other circumstances. Non-resident corporations may also be subject to branch tax.



Combined Federal and Provincial/Territorial Corporate Income Tax Rates
(based on a 12-month taxation year ended 31 December 2010)

	Corporate income Taxes[1]	
	General income %	Manufacturing and processing (M&P) income %
Alberta	28.0	28.0
British Columbia	28.5	28.5
Manitoba	30.0	30.0
New Brunswick	29.5	29.5
Newfoundland and Labrador	32.0	23.0
Northwest Territories	29.5	29.5
Nova Scotia	34.0	34.0
Nunavut	30.0	30.0
Ontario	31.0	29.0
Prince Edward Island	34.0	34.0
Quebec	29.9	29.9
Saskatchewan	30.0	28.0
Yukon	33.0	20.5

1. All provinces and territories impose income tax on income allocable to a permanent establishment in the province or territory. Income is generally allocated to a province or territory by using a two-factor formula based on gross revenue and on salaries and wages. Provincial and territorial income taxes are not deductible for federal income tax purposes. The rates do not take into account provincial tax holidays, which reduce or eliminate tax in limited cases.

   For Canadian-controlled private corporations (CCPCs), the first C$500,000 (lower in some provinces) of active business income may be subject to reduced rates, while 2010 investment income rates are 16.67% higher than the rates for general income.

The federal general and manufacturing processing (M&P) corporate income tax rate decreased from 19% to 18% on 1 January 2010. The rate will further decrease to 16.5% on 1 January 2011 and 15% on 1 January 2012. The federal government's goal is to achieve combined federal/provincial and federal/territorial rates of 25% by 2012. Provincial general and M&P corporate income tax rates will also decline in British Columbia (2011), New Brunswick (2011) and Ontario (2011 to 2013; general rate only).

Other taxes

Capital taxes
The federal government does not impose a general capital tax. General capital tax is scheduled to be eliminated in all provinces by 1 July 2012. For 2010, general capital tax applies only in Manitoba, Nova Scotia, Ontario and Quebec.

A federal financial institutions capital tax (Part VI Tax) is imposed on banks, trust and loan corporations and life insurance companies at a rate of 1.25% when taxable capital employed in Canada exceeds C$1 billion. The tax is not deductible in computing income for tax purposes. It is reduced by the corporation's federal income tax liability. In effect, the tax constitutes a minimum tax on financial institutions.

Financial institutions capital tax is imposed at rates generally ranging from 3% to 5% on banks, trusts and loan corporations in all provinces, except Alberta, British Columbia (after 31 March 2010), Ontario (after 30 June 2010) and Quebec (after 31 December 2010). There is no financial institutions capital tax in the territories.

Provincial and territorial payroll taxes
Employers in Manitoba, Newfoundland and Labrador, Ontario and Quebec are subject to payroll tax. Maximum rates range from 1.95% to 4.3%. In addition, Quebec employers with payroll of at least C$1 million must allot 1% of payroll to training or to a provincial fund. Employers in the Northwest Territories and Nunavut must deduct from employees' salaries a payroll tax equal to 2% of employment earnings.

Social security taxes
For 2010, employers are required to pay, for each employee, government pension plan contributions up to C$2,163 and employment insurance premiums up to C$1,046. However, Quebec employers contribute, per employee, a maximum of C$823 in employment insurance premiums and up to C$443 to a Quebec parental insurance plan.

Branch tax
A non-resident corporation will be subject to income tax at normal corporate rates on profits derived from carrying on a business in Canada. However, Canada's tax treaties generally restrict taxation of a non-resident's business income to the portion allocable to a permanent establishment located in Canada. In addition, a special 25% 'branch tax' applies to a non-resident's after-tax profits that are not invested in qualifying property in Canada. The branch tax essentially is equivalent to a non-resident withholding tax on funds repatriated to the foreign head office. In the case of a company resident in a treaty country, the rate at which the branch tax is levied may be reduced to the withholding tax rate on dividends prescribed in the relevant tax treaty (generally 5%, 10% or 15%). Some of Canada's treaties prohibit the imposition of branch tax or provide that branch tax is payable only on earnings in excess of a threshold amount. The branch tax does not apply to transportation, communications and iron-ore mining companies. Nor does it apply to non-resident insurers, except in special circumstances.

Specified investment flow-through (SIFT) tax
Certain earnings of SIFTs (i.e., publicly traded income trusts and partnerships) are subject to a SIFT tax and are deemed to be a dividend when distributed, starting the 2007 taxation year for SIFTs first publicly traded after 31 October 2006, and starting the 2011 taxation year for other SIFTs. These rules are intended to discourage corporations from converting to income trusts and effectively force existing trusts to consider either restructuring or abandoning the income trust model. The rules do not apply to Real Estate Investment Trusts that meet certain conditions.

Group taxation

Group taxation is not permitted. However, the federal government will explore whether the tax system could be improved by new rules for the taxation of corporate groups, e.g., the introduction of a formal system of loss transfers or consolidated reporting.

Transfer pricing

Canadian transfer pricing legislation and administrative guidelines are generally consistent with the Organisation for Economic Cooperation and Development (OECD) Guidelines. Statutory rules require that transactions between related parties be carried out under arm's length terms and conditions.

A taxpayer must be able to demonstrate that reasonable efforts were made to maintain complete and accurate documentation to evidence the arm's length prices for all related-party transactions. The documentation must be prepared on or before the prescribed due date, which is usually six months after the end of the taxation year. Penalties may be imposed if these requirements are not met or the documentation is deemed to be insufficient.

Canada has an Advance Pricing Agreement (APA) programme that is intended to help taxpayers determine transfer prices acceptable to the local tax authorities and, when negotiated as bilateral or multilateral APAs, with tax authorities in other jurisdictions. Under this programme, 210 APAs have been completed or are in progress.

Many of Canada's international tax agreements contain provisions concerning income allocation in accordance with the arm's length principle. These include a Mutual Agreement Procedure, which is a treaty-based mechanism through which taxpayers can petition competent authorities for relief from double taxation resulting from transfer pricing adjustments.

Tax incentives

In specified regions of Canada (i.e., Atlantic provinces, the Gaspé region and Atlantic offshore region) a 10% federal investment tax credit (ITC) is available for various forms of capital investment (generally, new buildings and/or machinery and equipment to be used primarily in manufacturing or processing, mining, oil and gas, logging, farming or fishing). The ITC is fully claimed against a taxpayer's federal tax liability in a given year. Unused ITCs reduce federal taxes payable for the previous three years and the next twenty years.

Income tax holidays are available in Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island and Quebec for certain corporations operating in specific industries (e.g., in Ontario and Quebec, commercialisation of intellectual property; in Prince Edward Island, bioscience or aviation) or meeting certain conditions (e.g., major investment projects for Quebec; job creation for Newfoundland and Labrador).

Targeted tax incentives at the federal, provincial and territorial level, include those related to:
- research and development;
- film, media, computer animation, and special effects and multi-media productions;
- manufacturing and processing;
- environmental sustainability.

Tax administration

Returns
The federal, provincial and territorial corporation tax systems operate on an essentially self-assessing basis. The tax year of a corporation, which is normally the fiscal period it has adopted for accounting purposes, cannot exceed 53 weeks. The tax year need not be the calendar year. Once selected, the tax year cannot be changed without approval from the tax authorities.

All corporations must file federal income tax returns. Alberta and Quebec tax returns must also be filed by corporations that have permanent establishments in those provinces, regardless of whether any tax is payable. Corporations with permanent establishments in other provinces that levy capital tax must also file capital tax returns. Tax returns must be filed within six months of the corporation's tax year end. No extensions are available.

Functional currency
The amount of income, taxable income, and taxes payable by a taxpayer is determined in Canadian dollars. However, certain corporations resident in Canada can elect to determine their Canadian tax amounts in the corporation's 'functional currency.'

Payment of tax
Corporate tax instalments are generally due on the last day of each month (although some Canadian-Controlled Private Corporations (CCPCs) can remit quarterly instalments providing certain conditions are met). Any balance payable is generally due on the last day of the second month following the end of the tax year.

Assessment and audit cycle
Many larger corporations have their returns audited annually. Smaller corporations are generally subject to less frequent audits, covering more than one year's return.

Occasionally, a specific industry or a particular type of transaction may be selected for more intensive examination.

A taxpayer that disagrees with a tax assessment or reassessment of a tax return can appeal by filing a notice of objection. A taxpayer that still disagrees with the outcome of the objection can appeal to the Tax Court of Canada. Tax Court of Canada decisions can be appealed to the Federal Court of Appeal. A request may be made to appeal a Federal Court of Appeal decision to the Supreme Court of Canada.

Calculation of taxable profits

For tax purposes a corporation's income from business and property is its profit derived from those sources. Profit is usually determined in accordance with generally accepted accounting and commercial principles, modified by specific statutory provisions.

Inventory valuation
In most cases, all property included in an inventory can be valued at fair market value, or each item can be valued at its cost or fair market value, whichever is lower. Most well-established and reasonable approaches to inventory costing can be used for tax purposes, except for the last-in, first-out (LIFO) method. Conformity between methods used for book and tax reporting is not mandatory, but the method chosen should be used consistently for tax purposes. Inventory must be valued at the commencement of the year at the same amount as at the end of the immediately preceding year.

Capital gains
Half of gains realised from the sale or exchange of capital assets is included in income subject to tax. The legislation does not specify a means of identifying properties or transactions that give rise to capital gains as opposed to income. This categorisation depends on the taxpayer's intent. Realised capital losses are deductible but generally only against capital gains.

A reasonable reserve in respect of uncollected proceeds on the sale of a capital asset may be claimed. However, a minimum of 20% of the deferred gain must be reported in the year of disposition and each of the following four tax years. Rollovers that defer capital gains or losses are available in respect of certain corporate reorganisations and other transactions involving no change in the economic interest of the property.

Interest, rents and royalty income
Interest that accrued, became receivable by or was received by a corporation, and rents and royalties received by a corporation are taxable as income from a business or property, as the case may be.

Inter-company dividends
Dividends received by one Canadian corporation from another Canadian corporation generally can be deducted in full in determining taxable income. However, dividends on certain preferred shares are an important exception and are taxed at full corporate rates. These special preferred share rules respond to a perceived abuse in which preferred shares that had the attributes of debt instruments were used in after-tax financing arrangements.

Dividends received by private corporations (or public corporations controlled by one or more individuals) from Canadian corporations are subject to a special refundable tax of 33-1/3%. The tax is not imposed if the recipient is connected to the payer (i.e., the recipient owns more than a 10% interest in the payer) unless the payer was entitled to a refund of tax in respect of the dividend. When the recipient pays dividends to its shareholders, the tax is refundable at C$1 for every C$3 of dividends paid.

Depreciation
Generally, depreciation for tax purposes (capital cost allowance) is computed on a pool basis, with only a few separate classes (pools) of property. Annual allowances are generally determined by applying a prescribed rate to each class on the declining-balance basis. For example, the prescribed annual rate on most furniture and fixtures is 20%, on automotive equipment 30% and on most buildings 4% to 10%. In the year of acquisition, only half of the amount otherwise allowable may be claimed on most classes of property. Generally, capital cost allowance may not be claimed until the taxation year the property is available for use. The taxpayer can claim any amount of capital cost allowance up to the maximum. Capital cost allowance previously claimed may be recaptured if assets are sold for proceeds that exceed the undepreciated cost of the class.

Net operating losses
Net operating losses generally can be carried back three tax years and forward twenty years. Special rules may prohibit the use of losses from other years when there has been an acquisition of control of the corporation.

Interest expense
Interest on borrowed money used for earning business or property income or interest in respect of an amount payable for property acquired to earn income is deductible, provided the interest is paid pursuant to a legal obligation and is reasonable in the circumstances.

Thin capitalisation rules can limit interest deductions when debt owing to certain non-resident shareholders (or persons not dealing at arm's length with a non-resident shareholder) exceeds two times the corporation's equity.

Business meals and entertainment
Deductions by a corporation for business meals and entertainment expenses are limited to 50% of their cost. If the business meal and entertainment costs are billed to a client or customer and itemised as such, the disallowance (i.e., the 50% not deductible) is shifted to the client or customer.

Taxes
Federal, provincial and territorial income taxes are not deductible in determining income subject to tax. However, provincial capital tax is deductible in computing taxable income.

Withholding taxes

Canada is continually renegotiating and extending its network of treaties, some with retroactive effect. The provisions of the treaties take precedence over Canadian tax legislation. Under most treaties, withholding tax is reduced to 15% or less. Absent a treaty, Canada imposes a maximum 25% rate of withholding on dividends, interest and royalties.

Canada has indicated that it is prepared to accept a treaty withholding tax rate of 5% on 'direct dividends,' i.e., dividends paid by a Canadian affiliate to a foreign parent or other corporation with a substantial interest in the affiliate. Under domestic law, interest (except for 'participating debt interest') paid to arm's length non-residents, regardless of their country of residence, is exempt from withholding tax.

Royalties for copyrights in respect of the production or reproduction of literary and other works (other than those in respect of motion picture films or videotapes for use in connection with television) are exempt from withholding taxes under domestic law. Canada has indicated that, in its treaty negotiations, it is prepared to eliminate withholding tax on certain payments in respect of the use of, or the right to use, any patent or any information concerning industrial, commercial or scientific experience. It is also willing to negotiate withholding tax exemptions for payments for the use of, or the right to use, computer software.

The following table summarises selected treaty withholding tax rates on payments arising in Canada.

		Dividends[1] %	Related-party interest %	Royalties %
Australia	N	5 or 15	10	10
China P.R. (not Hong Kong)		10 or 15	10	10
France		5 or 15	10	0 or 10
Germany		5 or 15	10	0 or 10
India		15 or 25	15	10, 15 or 20
Japan		5 or 15	10	10
Mexico		5 or 15	10	0 or 10
United Kingdom		5 or 15	10	0 or 10
United States		5 or 15	0[2]	0 or 10

N Negotiation or renegotiation of tax treaty or protocol underway.
1. If two or more dividend rates are provided, the lower applies if the recipient is a company that owns or controls a specified interest of the payor.
2. For the United States, the nil rate applies between related persons after 2009, subject to the Limitation of Benefits article.

Personal Income Tax

Individuals resident in Canada are subject to Canadian income tax on worldwide income. Relief from double taxation is provided through Canada's international tax treaties with certain countries as well as foreign tax credits and deductions for foreign taxes paid on income derived from non-Canadian sources.

Non-resident individuals are subject to Canadian income tax on income from employment in Canada, income from carrying on a business in Canada and capital gains from the disposition of taxable Canadian property. Non-residents are also subject to Canadian withholding tax on certain other income from Canadian sources. See *Withholding taxes* on page 22.

Individuals resident in Canada for only part of a year are taxable in Canada on worldwide income only for the period during which they were resident.

Generally, an individual is resident in Canada for tax purposes if there is a continuing relationship between the individual and Canada. In determining an individual's residence, all relevant facts must be considered. Residential ties of particular significance include the maintenance of a dwelling place available for the individual's occupation and the residence of the individual's spouse and dependants. Secondary factors include social and business ties and personal property, such as memberships in clubs and religious organisations, driver's licences, vehicle registration and medical insurance coverage. Citizenship and domicile under the tax laws of another country are not relevant.

Ordinarily, individuals are considered to be resident where they maintain a habitual abode for themselves and their families. If an individual, who, as a matter of fact, is considered not resident of Canada, sojourns (i.e., is temporarily resident) in Canada for 183 days or more in a calendar year, the individual is deemed to be resident in Canada for that entire year.

The residence status of an individual who is considered a resident of both Canada and a foreign country under each country's domestic laws may be determined under the relevant income tax treaty, if one exists.

Tax rates

Federal income tax rates are applied to taxable income. Personal tax credits, miscellaneous tax credits and the dividend tax credit are subtracted from the result to determine basic federal tax.

All provinces and territories set their own tax rates, brackets and credits. Except in Quebec, the federal definition of taxable income is used.

Combined federal/provincial (or territorial) top marginal tax rates for 2010 are shown on the following page. The rates apply to taxable incomes above C$127,021 (C$150,000 in Nova Scotia).

	Highest federal/provincial (or territorial) tax rate			
	Interest and ordinary income %	Capital gains %	Canadian dividends	
			Eligible[1] %	Non-eligible[1] %
Alberta	39.0	19.5	15.9	27.7
British Columbia	43.7	21.9	21.5	33.7
Manitoba	46.4	23.2	25.1	38.2
New Brunswick	43.3	21.7	19.5	30.8
Newfoundland and Labrador	43.4	21.7	22.8 or 20.8	31.3
Northwest Territories	43.1	21.5	19.8	29.6
Nova Scotia	50.0	25.0	33.6	36.2
Nunavut	40.5	20.3	23.6	29.0
Ontario	46.4	23.2	26.6	32.6
Prince Edward Island	47.4	23.7	25.7	39.7
Quebec	48.2	24.1	30.7	36.4
Saskatchewan	44.0	22.0	21.6	30.8
Yukon	42.4	21.2	18.8	30.5
Non-resident[2]	42.9	21.5	23.5	29.0

1. Eligible dividends must be designated as such by the payor. Dividends generally will be eligible dividends if the corporation that pays them is resident in Canada and either is a public corporation or is not a Canadian-controlled private corporation (CCPC). However, these corporations will pay non-eligible dividends in certain cases (e.g., if they received non-eligible dividends). Dividends from CCPCs will be eligible or non-eligible depending on the source of the dividends paid.
2. Non-resident rates for interest and dividends apply only in limited circumstances. Generally, interest (other than most interest paid to arm's length non-residents) and dividends paid to non-residents are subject to Canadian withholding tax.
3. In Newfoundland and Labrador, for eligible dividends paid:
   • before 1 July 2010, the rate is 22.8%; or
   • after 30 June 2010, the rate is 20.8%.

Other taxes

Capital gains tax

See *Capital gains* above.

Minimum income tax

In addition to the normal tax computation, individuals are required to compute an adjusted taxable income figure and include certain 'tax preference' items that are otherwise deductible or exempt in the calculation of regular taxable income. If the adjusted taxable income exceeds the minimum tax exemption of C$40,000, a combined federal and provincial tax rate of about 25% is applied to the excess, yielding the Alternative Minimum Tax (AMT). The taxpayer then pays the greater of regular tax or the AMT. Taxpayers required to pay the AMT are entitled to a credit in future years when their regular tax liability exceeds their AMT level for that year.

Social security taxes

For 2010, Canadian-resident employees are required to pay government pension plan contributions up to C$2,163 and employment insurance premiums up to C$747. (However, Quebec employees contribute a maximum of C$588 in employment insurance premiums because they must also contribute to a Quebec parental insurance plan, to a maximum of C$316.) A credit equal to 15% of the lesser of the amount payable and the required premiums for the year is allowed in computing the individual's federal taxes payable.

Self-employed persons contribute double the employee's government pension plan contribution (up to C$4,326 for 2010) and are permitted to deduct half of the contribution. The non-deductible half qualifies for a tax credit. Self-employed persons are not liable for employment insurance premiums. (Self-employed persons in Quebec must contribute up to C$562 to the Quebec parental insurance plan.)

Tax administration

Returns

The tax year is the calendar year. In most cases, taxpayers must file tax returns on a calendar-year basis by 30 April of the following year. Married taxpayers file separately; joint returns are not allowed. The filing deadline is extended to 15 June if the individual, or the individual's spouse, carried on an unincorporated business. Penalties and interest will accrue if there is a balance owing on a late-filed return.

Payment of tax

Income and social security taxes are withheld from salaries. Employers are required to provide a statement by 28 February indicating income earned and taxes withheld for the preceding year. Any balance of income tax owing is due by 30 April of the following year. Individuals are required to pay quarterly instalments if their tax payable exceeds amounts withheld at source by more than C$3,000 (C$1,800 for Quebec residents) in both the current and either of the two previous years.

Assessment and audit cycle

The tax authorities are required to issue an assessment notice within a reasonable time following the filing of a tax return. These original assessments usually are based on an initial high level review of the individual's income tax return and either indicate agreement with the return (which is the result in the majority of cases) or outline in detail any differences that arise from this limited initial review. Generally, taxpayers can be selected to be audited at any time within three years of the date of mailing of the original Notice of Assessment.

A taxpayer that disagrees with a tax assessment or reassessment of a tax return can appeal by filing a notice of objection. A taxpayer that still disagrees with the outcome of the objection can appeal to the Tax Court of Canada. Tax Court of Canada decisions can be appealed to the Federal Court of Appeal. A request may be made to appeal a Federal Court of Appeal decision to the Supreme Court of Canada.

Goods and Services Tax

The federal goods and services tax (GST) is levied at a rate of 5%. It is a value-added tax applied at each level in the manufacturing and distribution chain and applies to most goods and services. However, the tax does not apply to sales of zero-rated goods, such as exports and groceries, or to tax-exempt supplies, such as certain services provided by financial institutions.

Generally, businesses pay GST on their purchases and charge GST on their sales, and remit the net amount (i.e., the difference between the GST collected and the input tax credit for the tax paid on purchases). Suppliers are entitled to claim input tax credits with respect to purchases related to their supplies of zero-rated goods and services, but not on purchases related to their tax exempt supplies.

Harmonised sales tax

British Columbia, Newfoundland and Labrador, New Brunswick, Nova Scotia and Ontario have harmonised their sales tax systems with the GST and impose a single harmonised sales tax (HST) rate of 12% in British Columbia, 15% in Nova Scotia and 13% in the three other provinces. The rate includes a provincial sales tax component and the 5% GST. It is imposed on essentially the same base as the GST.

Retail sales tax

Manitoba, Prince Edward Island and Saskatchewan levy retail sales tax at rates ranging from 5% to 10% on most purchases of tangible personal property for consumption or use in the province and on the purchase of specific services.

Quebec's sales tax is structured in essentially the same way as the GST. Its base includes most of the goods and services subject to the GST. The general Quebec sales tax rate is 7.5% (8.5% in 2011 and 9.5% after 2011). Quebec administers the GST in that province.

Only Prince Edward Island and Quebec levy their sales tax on prices that include the GST.

Alberta and the three territories (the Northwest Territories, Nunavut and the Yukon) do not impose a retail sales tax.

Other Taxes

Property-related taxes

Property taxes are levied by municipalities in Canada on the estimated market value of real property within their boundaries and by provinces on land not in a municipality. In most provinces, a general property tax is levied on the owner of the property. Some municipalities levy a separate business tax, which is payable by the occupant if the premises are used for business purposes. Property taxes generally include a levy for public education.

Land transfer tax

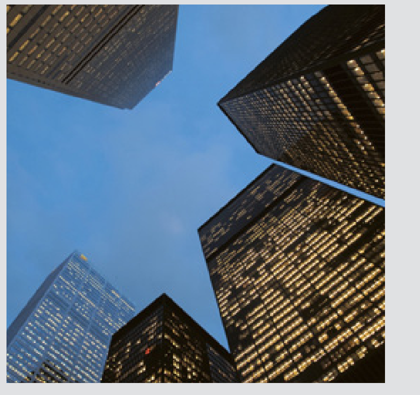
All the provinces and territories levy a land transfer tax or registration fee on the purchaser of real property within their boundaries. These levies are expressed as a percentage, primarily on a sliding scale, of the sale price or the assessed value of the property sold, and are generally payable at the time title to the property is registered. Rates generally range from 0.02% to 2%, depending on the province or territory, but may be higher if the purchaser is a non-resident. Some exemptions (or refunds) are available. Additional land transfer taxes apply for properties purchased in the municipalities of Montreal or Toronto. Other municipalities may also impose these taxes and fees.

Stamp tax

There are no stamp taxes in Canada, nor are there taxes or fees on the issuance of share capital.

Gift and inheritance taxes

There are no federal or provincial/territorial gift or inheritance taxes. However, all provinces and territories impose probate fees or administrative charges for probating a will.



Audit and accountancy

Accounting principles

Financial accounting and reporting standards, guidelines and a consensus of practice are developed and established by the Accounting Standards Board (AcSB), which is sponsored by The Canadian Institute of Chartered Accountants (CICA). The objective of these standards is to meet the needs of financial statement users by providing information to make informed decisions. The standards are published in the CICA Handbook – Accounting.

Effective for fiscal years beginning on or after 1 January 2011:

- publicly accountable enterprises must adopt International Financial Reporting Standards (IFRS); and
- private enterprises must adopt either IFRS or Accounting Standards for Private Enterprises (ASPE).

As a result, IFRS and ASPE will become Canadian Generally Accepted Accounting Principles (GAAP). Early adoption of IFRS is permitted in certain circumstances. Early adoption of APSE is permitted for fiscal years starting on or after 1 January 2009.

Form and content of financial statements

The basic components of a company's annual financial statements are the balance sheet, statement of income, statement of comprehensive income, statement of retained earnings, statement of cash flows and the notes. For most public companies, 'Management's Discussion and Analysis of Financial Condition and Results of Operations' (MD&A) must accompany the financial statements.

The income statement is required to disclose material amounts, including revenue recognised, income from investments, finance income from leases and income from operating leases, government assistance credited to income, amortization of property, plant and equipment and property under capital lease, amortization of intangible assets subject to amortization, impairment charges or write-downs of goodwill or other intangibles and property, plant and equipment, any gain or loss on disposal of property, plant and equipment or other long-lived assets, and interest expense related to long-term debt, capital lease obligations and other items.

The statement of cash flows reports changes in cash and cash equivalents, which normally include cash and highly liquid temporary investments with original maturities of 90 days or less. Cash flows are classified as operating, investing or financing activities.

Companies in Canada generally issue no par-value shares. If par-value shares are issued, any excess of capital over par-value is shown as a separate component in shareholders' equity, frequently under the contributed surplus heading.

The accrual concept is followed in the preparation of financial statements.

Statutory requirements

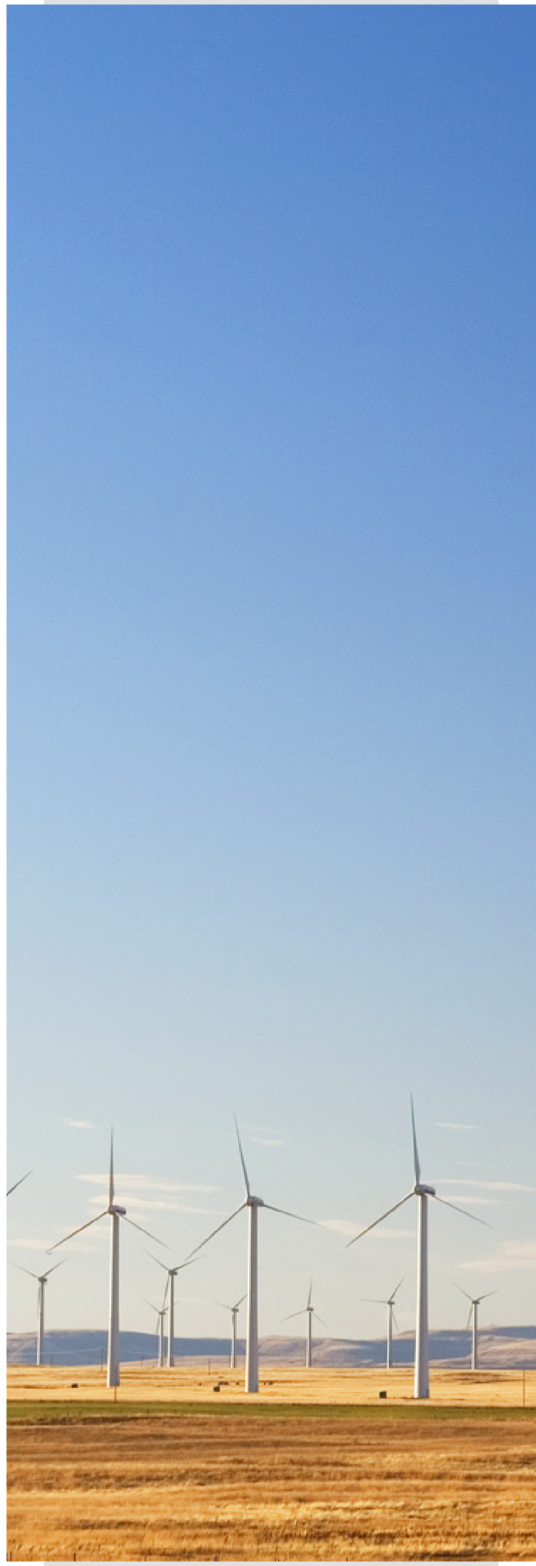
Federal, provincial and territorial corporation statutes generally specify the corporate records that must be maintained. For the most part, these requirements include adequate accounting records, which may be maintained in any form that is capable of reproducing the required information in paper or electronic form within a reasonable time. Sufficient precautions must be taken to safeguard the corporate records.

Federal, provincial and territorial corporation laws generally require shareholders to appoint auditors to report on the financial statements of the corporation. There are provisions for shareholders of private companies to waive the requirements for an audit on an annual basis.

Auditing standards

Recommended reporting standards and practice guidance on auditing and related services are developed and promulgated by the Auditing and Assurance Standards Board (AASB), which is sponsored by the CICA. The auditors' objective is to express an opinion on whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in accordance with generally accepted accounting principles. In performing a financial statement audit, auditors comply with Canadian generally accepted auditing standards, which relate to the auditors' qualifications, the performance of the audit and the preparation of the auditors' report.

Effective for all audits of financial statements for periods ending on or after 14 December 2010, Canada will adopt the International Standards on Auditing (ISA) as Canadian Auditing Standards (CAS), with modifications in some cases, for audits of financial statements and other historical information.



Human Resources and Employment Law

Employer/employee relations are governed by federal, provincial and territorial labour legislation. The Canada Labour Code is the federal law dealing with such matters as fair employment practices, labour standards, fair wages policy and safety of employees.

Human Resources and Skills Development Canada oversees a broad range of federal learning programmes. Employers in several trades and professions provide training programmes for employees at their own discretion.

Labour law requirements

All provincial and territorial governments have legislated minimum wage rates. For 2010, provincial rates for adult workers generally vary from C$8.00 to C$10.25 per hour.

Labour legislation generally limits normal hours of work per week to a maximum of 40 hours (44 or 48 hours in some provinces and territories) as well as per day (8 hours) in many cases. All provinces and territories provide for overtime pay, generally at 1 and 1½ times the regular rate.

Generally, two weeks vacation follows a year of employment, with provision for three or four weeks after employment for a number of years. The minimum annual vacation pay rate is generally 2% of annual earnings for each week of vacation entitlement. The number of holidays depends on the city, province or territory.

Legislation prohibits discrimination on a number of grounds, including race or colour, religion, sex, age, physical/mental disability or handicap, marital status and sexual orientation. Equal-pay-for-equal-work provisions exist across Canada.

Labour laws oblige employers and employees to perform their duties in a safe manner and authorise establishment of joint labour/management safety and health committees. Employers face penalties for contravening any occupational safety and health act or regulation.

Unions

Labour in Canada, with the exception of farm help, domestic help and white-collar workers, is extensively organised in labour unions. Wage rates, fringe benefits, working conditions and management rights usually are determined by collective bargaining.

Fringe benefits

Fringe benefits are a sizeable cost of doing business in Canada. Generally, private sector employers pay about 33% of gross payroll for employee benefits. At a minimum, benefits include the cost of statutory holidays, vacation pay and the required employer contribution to government programmes such as the government-run pension plans, employment insurance (EI) and workers' compensation. In addition, many employers contribute to the following group benefit plans on behalf of their employees:

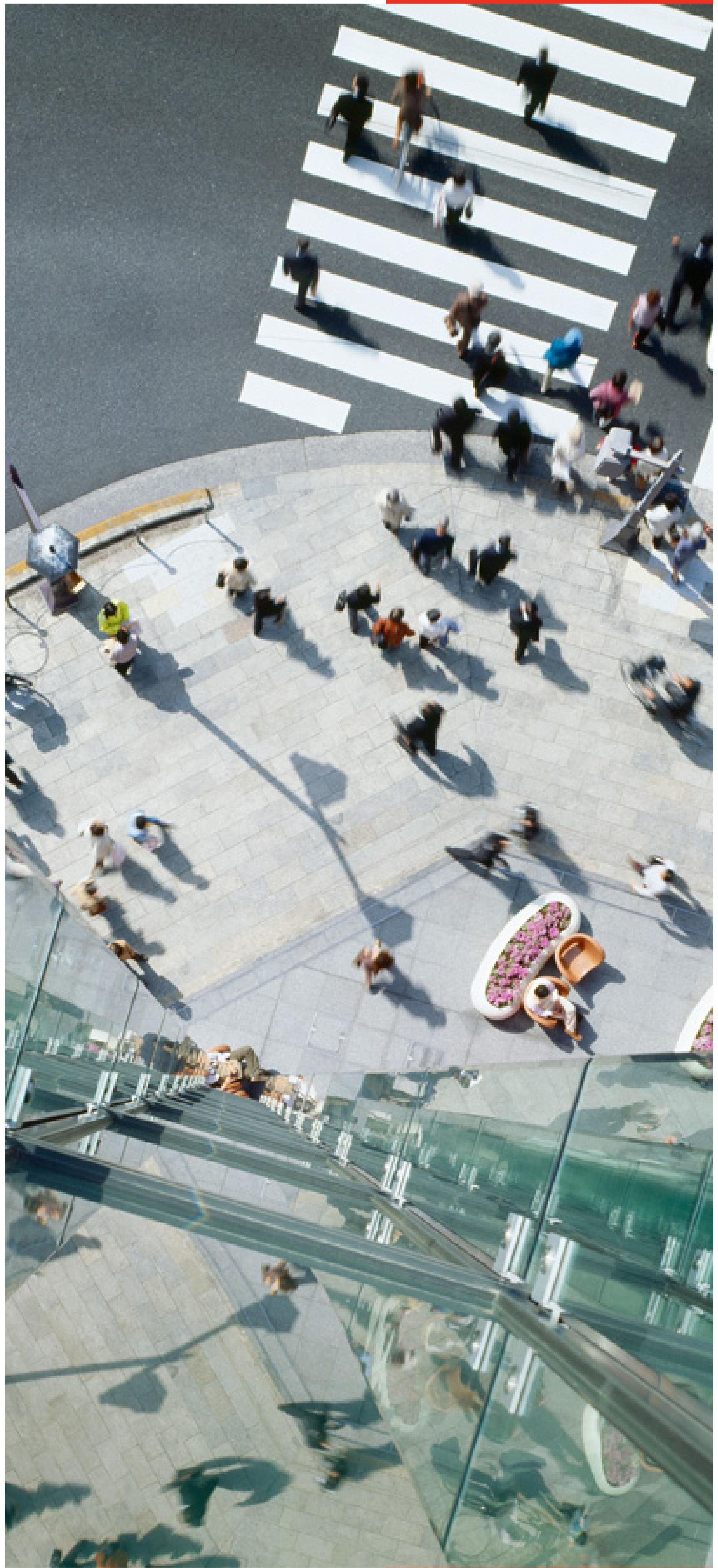
- group life insurance with death benefits;
- payment of the employee's share of government hospital and medical plan premiums;
- extended health insurance, providing additional coverage for semi-private or private hospital accommodation and the cost of prescription drugs; and
- company pension plan.

Foreign nationals working in Canada

Foreign workers may face three requirements to enter and work temporarily in Canada: a temporary resident visa (TRV), a work permit and a labour market opinion that confirms the employer can hire a foreign worker based on an assessment that the hiring will not have a negative impact on the domestic labour market. Visitors to Canada require a valid passport (or an equivalent travel document) to enter Canada. They also generally require a TRV (depending on their nationality).

Canada's permanent immigration policy emphasizes the selection of skilled immigrants who are likely to adapt to the Canadian way of life and make positive contributions to Canada's economic and cultural development.

The living conditions for foreign nationals are the same as for local Canadian personnel of comparable standing. Housing and other living costs vary from one location to another. Full-time domestic help is available but is not the norm in Canada.



Trade

Administration

The Canada Border Services Agency is the key administrative body in respect of imports and exports, although other government agencies have various roles in respect of specific products. Customs clearance is available 24 hours a day, seven days a week at most major ports. After-hours service charges may apply at smaller ports.

Companies that wish to import must add an import account to their Business Number. This will also allow the importer to remit duties and taxes on a monthly basis. Importers that do not pay import duties and taxes before release of the goods are required to post security, which can be in the form of a bond.

Although importers are not required to use a customs broker, most will use one to assist with customs clearance. The Canada Border Services Agency will hold the importer responsible for errors and omissions made by the customs broker.

Import/export restrictions

Canada has relatively few import restrictions. Some products must meet specific safety standards or labelling requirements and may be denied entry if they do not. Canada uses tariff rate quotas to discourage the importation of selected agricultural and food products.

Canada applies export controls in accordance with international initiatives such as the Wassener Arrangement, and to comply with United Nations (UN) sanctions. Exports of controlled goods and technology are administered by the Department of Foreign Affairs and International Trade (DFAIT) and, in some cases, by other agencies, such as Health Canada and the Canadian Nuclear Safety Commission. In addition to controls on specific goods and technology, some controls are applied on exports to specific destinations.

Custom duties

Custom duties are generally intended to protect Canadian industry from foreign competition and not as a source of revenue. The majority of most-favoured-nation (MFN) duty rates are below 10%; notable exceptions are textiles and apparel and certain food products (the latter may be subject to 'tariff rate quotas'). Many products are duty-free regardless of their country of origin. Goods imported from developed countries with which Canada does not have trade agreements will attract the MFN duty rate.

Qualifying goods that originate in the North American Free Trade Agreement (NAFTA) territory (Canada, the United States and Mexico) can enter Canada duty-free. Canada has implemented free trade agreements (FTAs) with several countries (i.e., Chile, Costa Rica, the European Free Trade Association countries, Israel, Peru) and has signed or is negotiating agreements with several others. Like the NAFTA, these agreements set out rules of origin for determining whether the goods are eligible for preferential duty rates under the particular FTA.

Canada extends preferential duty rates to most (but not all) products imported from developing countries (the General Preferential Tariff) and has granted further concessions to goods originating in certain countries designated as least developed by the Canadian authorities. In either case, to qualify for these rates goods must satisfy rules of origin and be shipped directly to Canada from the beneficiary countries. Canada applies the general duty rate of 35% to only two countries (North Korea and Libya).

Canada's customs valuations legislation is based on the World Trade Organization 'Valuation Agreement' and its custom tariff is based on the World Customs Organization 'Harmonized Commodity Description and Coding System'.

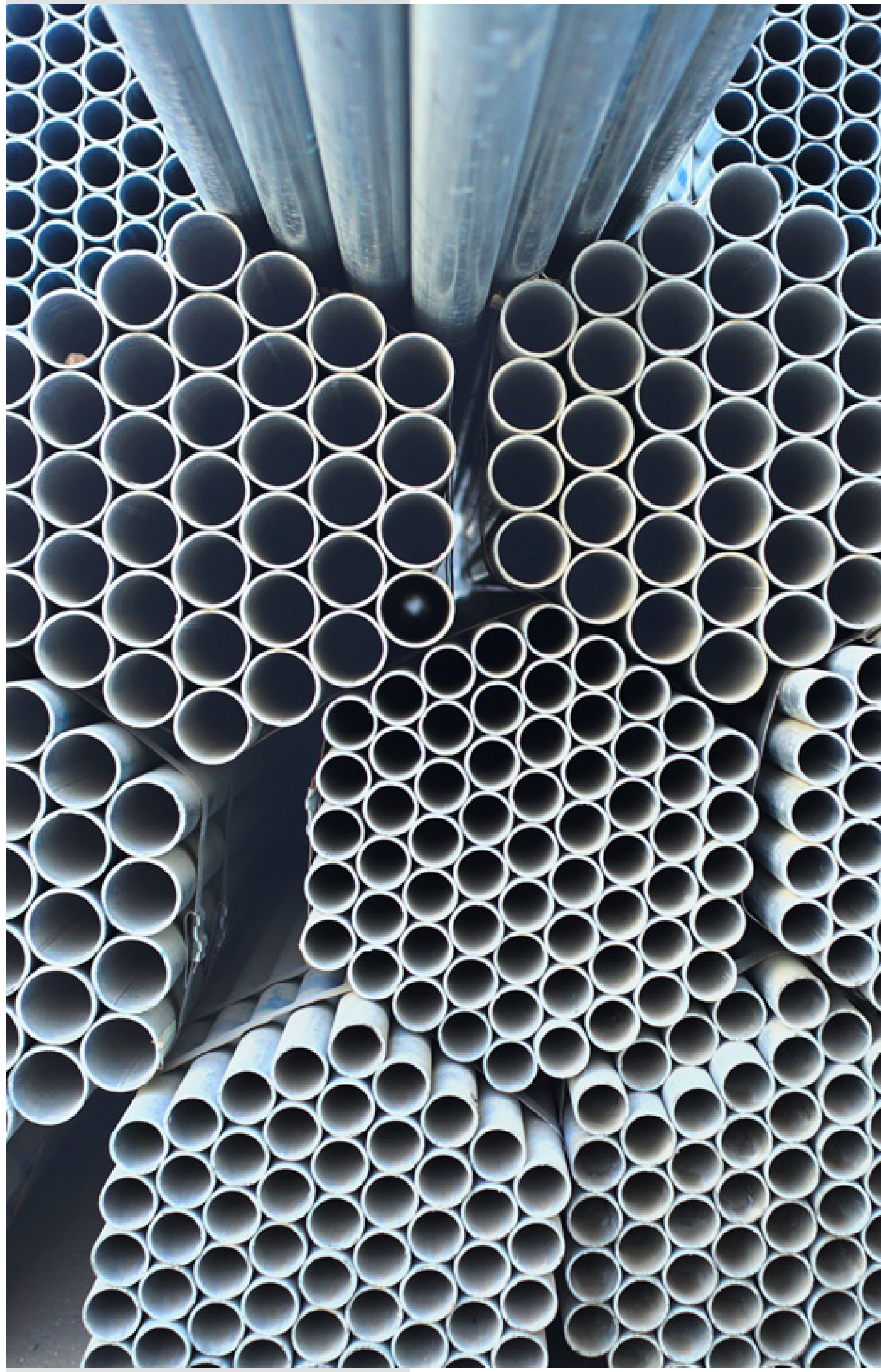
Goods and Services Tax (GST)

GST of 5% will be collected on most imported goods. GST is collected on the sum of the customs value plus the amount of any duty paid on the goods (the 'duty paid value'). Importers that are GST registrants can recover the GST paid at import as an input tax credit. Non-resident importers can become GST registrants.

Excise duties and taxes

Excise duties are levied at various rates on alcohol, alcoholic beverages (other than wines) and tobacco products manufactured in Canada, while imports are subject to customs duties (see page 32).

Excise tax is imposed on petroleum products and automobiles. In addition, a 10% federal excise tax applies to insurance premiums paid or payable by a Canadian resident to an insurer that is not authorised under Canadian provincial or territorial law to transact the business of insurance. Certain premiums are exempt, including those for life, personal accident, marine and sickness insurance.



Banking in Canada

Canada offers an efficient, well-developed and highly regulated banking system. Bank accounts are easily set up and there are no restrictions on accessing the accounts. The Canadian financial services industry includes chartered banks, trust companies, insurance companies, investment dealers, mutual fund companies and distributors, and finance and leasing companies. Numerous government agencies also offer financial services.

Canadian capital markets

Canada has a sophisticated securities exchange system that ranks among the major capital markets of the world. Equity securities are traded on three major exchanges, each with its own area of specialisation. Foreign investors can participate in Canada's securities markets without restriction, subject to Investment Canada's authority to regulate certain takeovers. In addition, there are no restrictions over foreign investors' access to Canadian sources of finance.

Regulation, supervision and consumer protection

The Office of the Superintendent of Financial Institutions (OSFI) is the federal agency principally responsible for supervising all federally regulated financial institutions and pension plans. OSFI's role is to safeguard policyholders, depositors and pension plan members from undue loss, and to advance and administer a regulatory framework that contributes to public confidence in a competitive financial system.

The Financial Consumer Agency of Canada oversees regulation of all federally regulated financial institutions in respect of consumer protection. In addition, subject to certain exemptions, deposit-taking institutions are required to register with the Canada Deposit Insurance Corporation (CDIC) and to meet this body's risk and control expectations. Deposits with CDIC registered institutions are insured up to C$100,000 per deposit. The insurance is funded through premiums determined by CDIC on a risk based scale and paid by the institution. Similar protection exists provincially and territorially for deposits of credit unions and caisses populaires.

The securities industry is regulated at the provincial and territorial level. Each province and territory has its own securities commission, which is responsible for the regulation of securities listing and trading activity in that province and territory. In addition, as a matter of self-preservation, the exchanges provide a self-regulatory role as does the Investment Industry Regulatory Organization of Canada (IIROC). The self-regulatory organisations (SROs) jointly sponsor the Canadian Investor Protection Fund (CIPF), a trust fund that protects investors in the event of the insolvency of a member firm. The CIPF covers separate customer accounts, up to C$1 million per account, for losses that result only from the insolvency of a member. It does not cover customers' losses that result from other causes such as changing market values of securities, unsuitable investments or the default of an issuer of securities.

The mutual fund industry is also governed by provincial and territorial securities laws. There is also extensive self-regulation by the Mutual Fund Dealers Association of Canada.

HSBC in Canada

Overview

HSBC Bank Canada is the largest full-service, internationally-owned bank and the seventh largest bank overall in Canada. It is a subsidiary of HSBC Holdings plc, a member of the HSBC Group, headquartered in London, U.K.

Originally established in 1981, with the head office located in Vancouver, British Columbia, HSBC Bank Canada has grown organically and through strategic acquisitions. With more than 260 offices across Canada including over 140 bank branches, HSBC Bank Canada provides personal and commercial banking services, global banking and market services, retail brokerage, wealth management, personal trust services and consumer finance services.

The HSBC Group is one of the world's largest banking and financial services organisations with over 8,000 offices in 87 countries and territories and assets of US$2,418 billion at 30 June 2010

Key events in the growth of HSBC in Canada

1 July 1981 Hongkong Bank of Canada [now HSBC Bank Canada] incorporated as a chartered bank under the Bank Act of Canada.

27 November 1986 Acquired substantially all the assets and liabilities of the Bank of British Columbia. As a result, 41 branches were added in British Columbia and Alberta. Overnight moved from 20th largest to 9th largest bank in Canada.

1 May 1988 Acquired Midland Bank Canada pursuant to a statutory amalgamation agreement.

1 November 1989 Acquired Lloyds Bank Canada pursuant to a statutory amalgamation agreement, thereby adding 53 branches across Canada, mostly in Ontario and Quebec.

30 April 1993 Acquired ANZ Bank Canada consisting of one office in Toronto. Operations were merged with 70 York Street branch.

29 May 1995 Established Hongkong Bank Discount Trading Inc. [now HSBC InvestDirect, a division of HSBC Securities (Canada) Inc.], a subsidiary offering online direct investing services.

1 August 1995 Purchased Metropolitan Trust Company of Canada [now HSBC Trust Company (Canada)], with one office in Edmonton.

2 November 1995 Acquired HSBC James Capel Canada Inc. [now HSBC Securities (Canada) Inc.], a full service stock brokerage firm.

3 May 1996 Purchased M.K. Wong & Associates Ltd. [HSBC Global Asset Management (Canada) Limited, formerly known as HSBC Investments (Canada) Limited], a fund management and investment counselling firm.

31 August 1996 Acquired Barclays Bank of Canada pursuant to a statutory amalgamation agreement.

1 May 1998 Acquired National Westminster Bank of Canada pursuant to statutory amalgamation agreements.

6 July 1998 HSBC James Capel Canada Inc. [now HSBC Securities (Canada) Inc.] acquired Moss, Lawson & Co. Limited pursuant to statutory amalgamation agreements.

4 December 1998 Acquired a minority interest in Northstar Trade Finance Inc., based in Richmond, B.C.

1 January 1999 HSBC James Capel Canada Inc. [now HSBC Securities (Canada) Inc.] acquired Gordon Capital Corporation pursuant to statutory amalgamation agreements.

21 June 1999 Hongkong Bank of Canada renamed HSBC Bank Canada.

6 December 1999 Acquired Prenor Trust Company of Canada [now HSBC Loan Corporation (Canada)].

1 April 2000 Acquired Republic National Bank of New York (Canada) pursuant to a statutory amalgamation agreement.

1 April 2001 Following CCF Canada's amalgamation with Credit Lyonnais Canada, acquired CCF Canada pursuant to a statutory amalgamation agreement.

1 June 2004 Acquired Intesa Bank Canada pursuant to a statutory amalgamation agreement.

2 June 2008 HSBC Investments (Canada) Limited renamed HSBC Global Asset Management (Canada) Limited.

30 November 2008 Acquired HSBC Financial Corporation Limited (formerly Household Financial Corporation Limited).

12 January 2010 Officially opened Discovery Green, a new state-of-the-art global software development centre in Burnaby BC. The building was awarded the LEED Platinum-CS designation from the US Green Building Council.

Staff

Regular full-time	7,134
Regular part-time	905
Temporary full-time	156
Temporary part-time	220
Total	**8,415**

Awards

- Top Company for Young People in Canada (Mediacorp Canada Inc.), 2010
- Best Diversity Employer in Canada (Mediacorp Canada Inc.), 2010
- Top Employer in British Columbia (Mediacorp Canada Inc.), 2010
- Best Bank for Business in Canada (Canadian Federation of Independent Business), 2010
- Top 50 Socially Responsible Corporations in Canada (Maclean's Magazine/Jantzi Sustainalytics), 2010
- Best 50 Corporate Citizens in Canada (Corporate Knights Magazine), 2010

Corporate Sustainability

HSBC Bank Canada directs the majority of its charitable giving to educational and environmental organisations. Last year HSBC Bank Canada made the largest donation ever by a bank to the University of British Columbia (UBC). The C$2.17 million donation over seven years will help provide scholarships and support the UBC Learning Exchange in Vancouver's Downtown Eastside – one of Canada's most challenged neighbourhoods. In 2009 HSBC Bank Canada opened a new environmentally-sustainable office in Burnaby, British Columbia, for over 850 employees that develop software solutions for HSBC operations around the world. The building is certified Leadership in Energy and Environmental Design (LEED-CS) platinum by the US Green Building Council. HSBC Bank Canada is also currently awaiting the completion of their state-of-the-art corporate centre in Vancouver, British Columbia. It is expected to be completed in 2012 and is being built to achieve LEED Gold or higher.

Country overview

Capital city	Ottawa
Area and population	Area of 9,984,670 sq km and population of 34.1 million
Language	English, French
Currency	Canadian dollar
International dialling code	001
National Holidays	Scheduled Public Holidays for 2011

New Year's Day	1 January
Good Friday	22 April
Easter Monday	25 April
Victoria Day	23 May
Canada Day	1 July
Labour Day	5 September
Thanksgiving Day	10 October
Christmas Day	25 December
Boxing Day	26 December

Business and banking hours	Business – Generally 8:30 a.m. to 5:00 p.m. (Monday to Friday) Retail business: generally open Saturday, sometimes Sunday, and some evenings. Banking – Financial district: generally 8:00 a.m. to 5:00 p.m. (Monday to Friday) Other: open 9:00 a.m. or 10:00 a.m. and close any time between 3:00 p.m. to 8:00 p.m., depending on the day of the week; some open on Saturdays
Major Stock exchanges	Toronto Stock Exchange Montreal Exchange (derivatives) TSX Venture Exchange
Political structure	Parliamentary democracy
Economic statistics (2009) (see Tables 1 to 6 on pages 10 and 11)	Current GDP – C$1,527,258 million Foreign direct investment – C$549,400 million

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