focus on Québec Securities

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2005-2006 Québec Budget replaces QSSP with SME Growth Stock Plan

In the 2005-2006 Québec Budget presented to the National Assembly on April 21, 2005, the Minister of Finance introduced a new stock savings plan to be called the SME (Small and Medium-Sized Enterprise) Growth Stock Plan (the "**New Plan**").

The New Plan replaces the former Québec Stock Savings Plan (the "**QSSP**") introduced in 1979, which has been subject to a moratorium since June 2003 while it was reviewed by the Ministère des Finances.

The New Plan will come into force on **April 22, 2005** and will end on **December 31, 2009**.

The QSSP will be wound down gradually. No investment in or offering of securities will henceforth be recognized under the QSSP, although investors who benefited from the QSSP after December 31, 2002 and before January 1, 2006 will continue to be subject to their obligations under that plan, in particular the compulsory holding period.

<u>The principal differences between the QSSP and the New Plan are:</u>

• The maximum size of eligible issuing corporations is being reduced from $350 million in assets under the QSSP to $100 million in assets under the New Plan;

• A single deduction rate of 100% of the adjusted cost of eligible securities will apply. The only eligible securities will be newly issued common shares with voting rights or securities issued by investment funds;

• The minimum 2-year holding period (the former "rule of 3 December 31s") will be extended to 3 years;

• The new coverage mechanism, allowing investors to dispose of an investment provided they replace it with an investment of the same value, will require replacement of the security within 21 days. Failure to cover a withdrawal within this period will constitute a virtual withdrawal called a "coverage deficiency amount" that will have the same tax consequences as a real withdrawal, in particular regarding the determination of amounts that can be included or deducted in the calculation of the investor's' taxable income;

• The requirement to obtain an advance ruling from Revenu Québec will be extended to almost all public offerings eligible for the New Plan.

An eligible security must have been covered by a favourable advance ruling by Revenu Québec in relation to compliance with the objectives of the New Plan, although the QSSP requirement that an advance ruling be obtained regarding a share distributed by means of a simplified prospectus will not be included in the New Plan. The use of proceeds disclosed in the issuer's final prospectus must relate to activities carried out in Québec and such activities must not, in Revenu Québec's opinion, have a tangible negative impact on the level of employment or economic activity of the eligible issuing corporation in Québec.

Rules similar to the rules of the QSSP will apply to investment funds. As under the QSSP, investment funds will have to be established in Québec and the trustee or manager will need to reside in Canada and maintain an establishment in Québec. Pending changes to Québec securities legislation (in connection with the adoption of Regulation 45-106), distributions made by an investment fund will need to be made by prospectus or pursuant to the exemption for distributions of $150,000 or more in Section 51 of the *Securities Act* (Québec) (the "**Act**"). Eligible issuing corporations will be exempt from the advance ruling requirement when making distributions under section 51 to an investment fund except when this offering of shares is the corporation's first distribution. The notice of distribution pursuant to section 51 of the Act will need to be filed with Revenu Québec within 10 days of the end of the distribution.

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