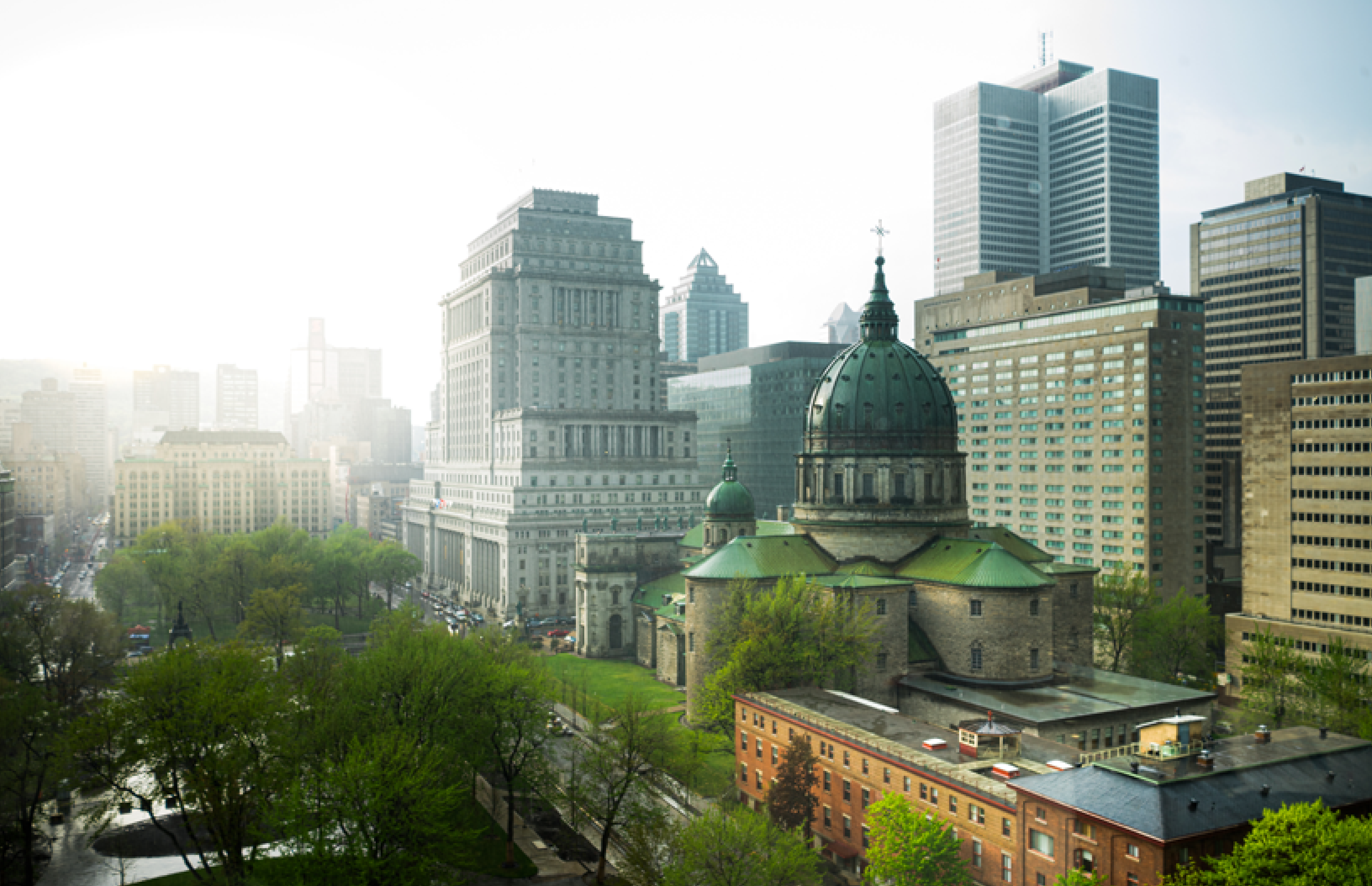

Doing Business in Quebec

A Practical Guide to Navigating a Unique Legal Landscape

Lavery

Quebec: Your destination for business growth

Quebec is a top destination for foreign direct investment (FDI) thanks to its strong innovation ecosystem and predictable business environment.

For the 2024–2025 fiscal year, foreign direct investment prospecting activities and support for subsidiaries of foreign companies led to **82 projects**, generating a total of **$6.45 billion in investments across Québec**.

Several projects were launched in strategic sectors and in designated innovation zones. Approximately $1.6 billion was invested in the chemicals and advanced materials sector, **$1.1 billion in clean technologies, $1.9 billion in the transport sector including aerospace and $585 million in the natural resources industry**.

Source: Investissement Québec

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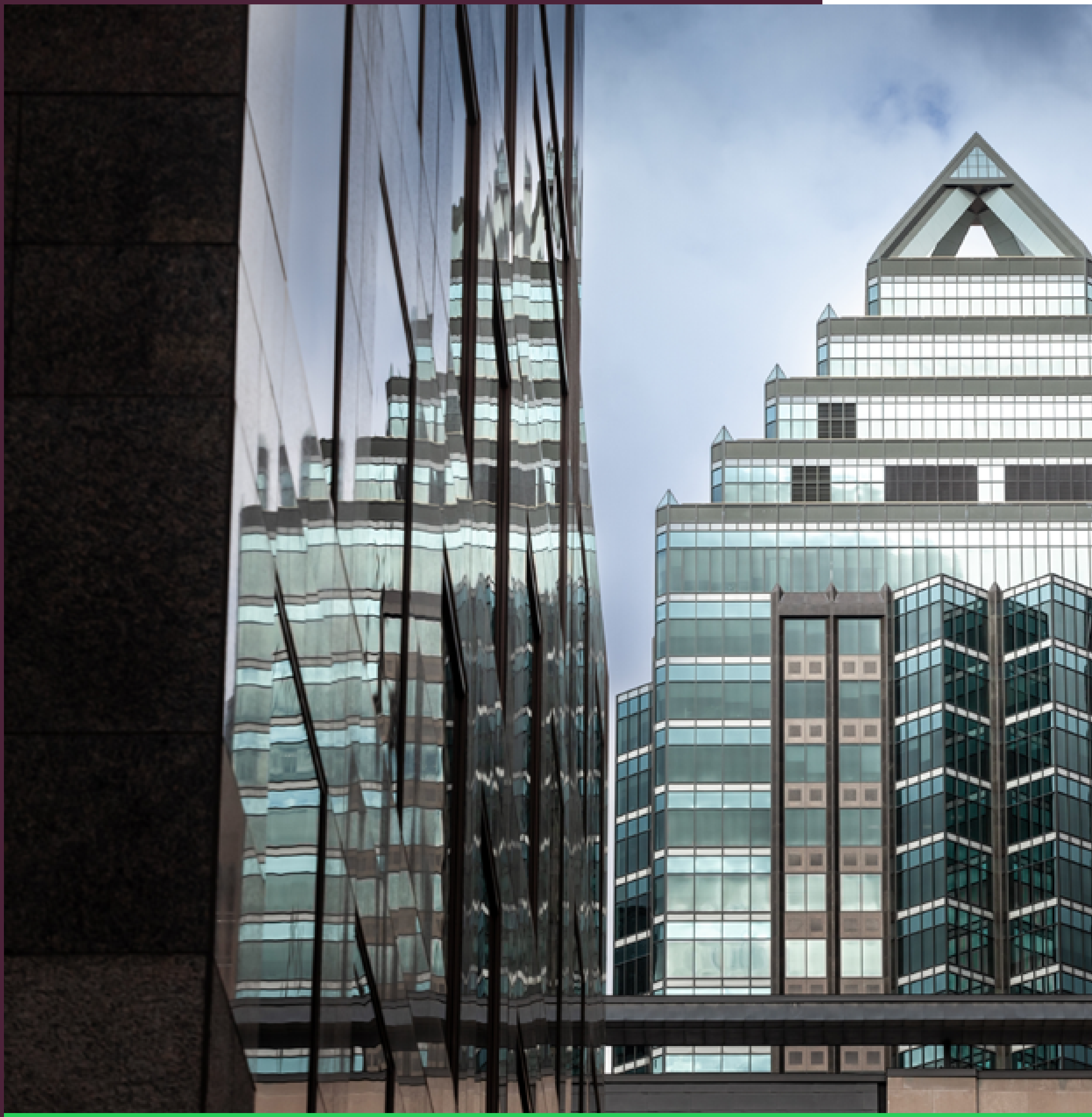


The legal system

Canada is a federation with two levels of government, each one sovereign within the limits set out under the Canadian Constitution. For example, the federal government has jurisdiction over banks, intellectual property and criminal law across Canada, while **provincial governments have jurisdiction over healthcare, education, trade and commerce and property and civil rights** in their respective province.

Creating a legal entity in Quebec

Quebec is an exception to the rest of the country, which is governed by legal systems founded on the English common law. Quebec's legal system is much closer to the French civil law system. As such, the province has a civil code and a code of civil procedure.

A business that establishes itself in Quebec must first determine the legal form under which it will operate. A foreign business can decide to operate directly, without creating a new separate legal entity, or as a subsidiary of the parent company in the form of (i) a business corporation or (ii) a partnership (for example, a limited partnership or a general partnership). A number of tax and legal factors should be considered before deciding on the most appropriate legal form, which is why it is important to seek professional advice before establishing any business in Canada.

Business corporation (subsidiary)

In Quebec, a business corporation is the legal form of choice for creating a business because of its many advantages. In the eyes of the law, it is a distinct person with full enjoyment of its civil rights and has its own legal obligations.

A business corporation exists forever, and it will continue to exist as long as the shareholders do not decide to dissolve it. Shareholder liability for a business corporation's debts is limited to the value of their shares (which means that their only risk is losing the value of their investment in the business corporation), and the business corporation itself remains liable for its debts, liabilities and obligations. Shareholders have no ownership rights in the business corporation's property, but can receive dividends from any profits realized as well as the remainder of the value of its assets, should it be liquidated.

Direct operation (branch)

In Canada, a business corporation can be incorporated federally under the *Canada Business Corporations Act* (the "CBCA") or provincially under the Quebec *Business Corporations Act* (the "BCA"). Both laws have their distinctive attributes. For example, unlike the CBCA, **the BCA does not require that directors be Canadian residents**. Under the CBCA, a minimum of 25% of the business corporation's directors must be Canadian residents (or at least one director if there are three or less).

Neither the BCA nor the CBCA require any **minimum capitalization or share ownership**, as is the case for certain European legal entities, among others.

First, a foreign company can decide to do business in Quebec directly by registering a branch with the Quebec Enterprise Registrar, rather than creating a new legal vehicle. In such a case, the foreign company remains liable for the debts and obligations of the branch it operates in Quebec. The foreign company will also be subject to the same applicable Quebec and federal legislation, with the necessary adaptations.

Partnership

The *Civil Code of Quebec* recognizes three types of partnerships:

— General partnership
— Limited partnership
— Undeclared partnership

Generally speaking, the purpose of a contract of partnership, which must be signed between at least two partners (natural or legal persons or other partnerships), is to operate a business. Each partner must personally contribute to the partnership in the form of property, knowledge or activities, and the partners share the profits realized from operating the business. A contract of partnership establishes and governs the rights and obligations of the partners and partnership.

A general partnership is the most common type of partnership in Quebec. The *Civil Code of Quebec* provisions on general partnership serve as the basic rules governing any partnership.

It should be noted that liability of partners in a partnership is generally not limited to the amount of their respective contribution, as is the case for business corporation shareholders.

Financing

A business can finance operations in Quebec by way of a loan or issuing shares. In this regard, a number of aspects must be considered, depending on each situation.

Also, to avoid having to comply with the *Securities Act* requirements on issuing and transferring shares, a business corporation (like a limited partnership) must qualify as a "private issuer," meaning it must satisfy the requirements of *Regulation 45-106 respecting Prospectus Exemptions*. Its securities must be subject to restrictions on transfer as stated in the business corporation's incorporating documents; they cannot be owned by more than 50 persons, not including employees of the corporation or its affiliates, and may only be distributed to certain categories of persons specifically described in the regulation.

The Act respecting the legal publicity of enterprises

Regardless of its legal form, every business operating in Quebec must register with the Enterprise Registrar and declare information that must be updated at least annually.

Moreover, **every business must have a French name that complies with the *Charter of the French language*** at the time of its registration, and every business with 5 to 49 employees must disclose the proportion of its workforce that is unable to communicate in French to the Quebec Enterprise Registrar.

Lastly, since June 1, 2025, businesses with 25 to 49 employees and those with 50 or more employees have been required to register with the Office québécois de la langue française in order to help make French the normal and everyday language of work, commerce and business in Quebec.

Gaming and Technology

Quebec is the **2nd largest tech hub in Canada**. The province's tech ecosystem is particularly strong in artificial intelligence (AI), creative industries, life sciences, and clean energy. Montreal alone is home to 150 game studios, including the largest game studio in the world.

Conducting a merger/ acquisition in Quebec

In the event you decide, like many foreign companies, to establish your business in Quebec through a merger or acquisition, know that the success of such a transaction is due to careful planning.

In Quebec and elsewhere in North America, **it is common to surround yourself with professional advisors** (lawyers, accountants, bankers, etc.) at the outset of discussions. These professionals can maximize your chances of success by limiting any risks and complications. They often participate in developing acquisition/merger strategies, even before a letter of intent has been signed, specifically by taking any tax consequences into account in order to optimize the strategy adopted.

A **letter of intent** is a generally non-binding agreement in which the parties agree on the outline of the transaction. It is often accompanied by a confidentiality agreement that protects the confidentiality of discussions, and even the very fact that they took place, and the information shared during such discussions.

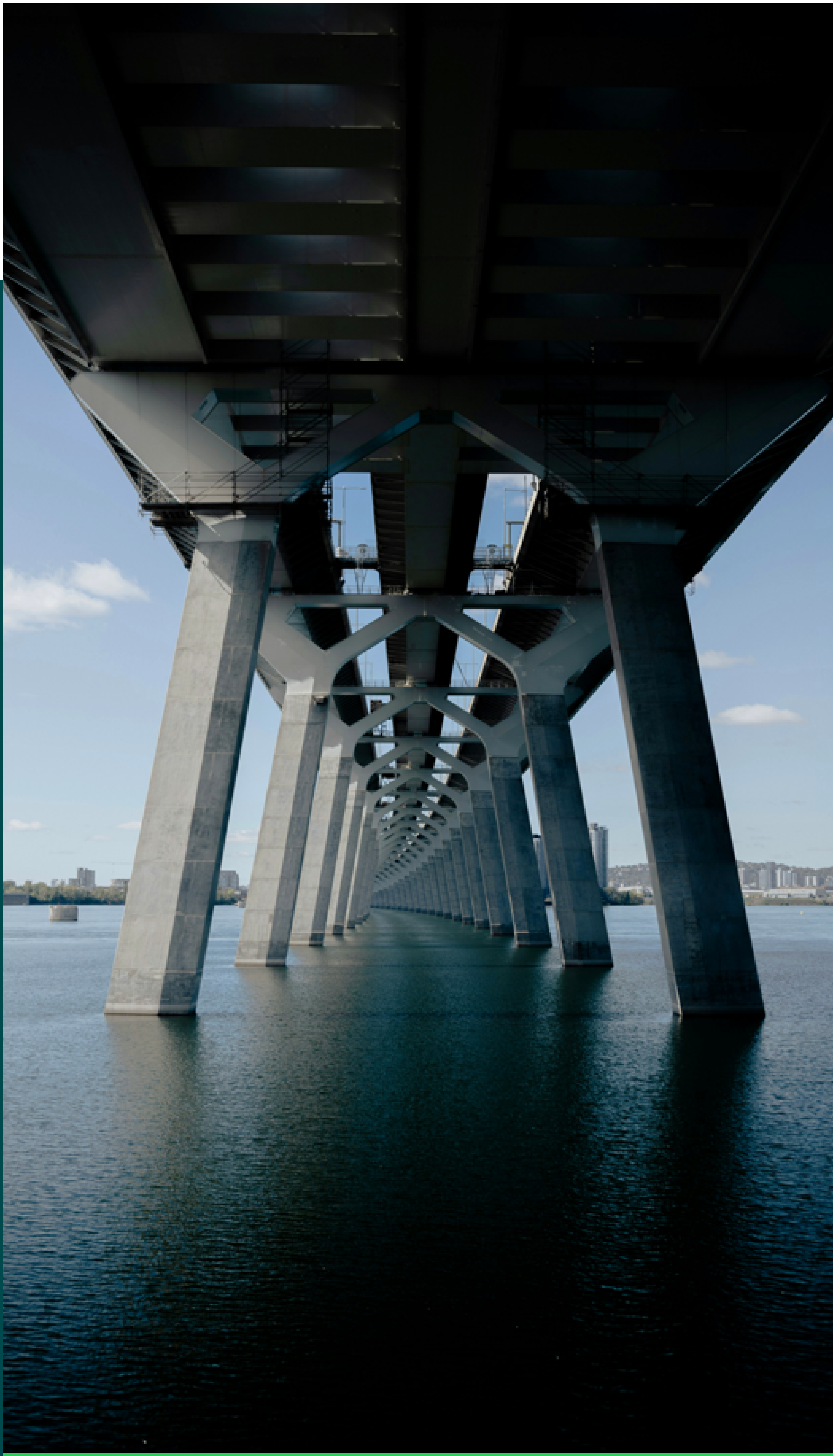
The next step in the merger/acquisition process is **due diligence**, which consists in a preliminary investigation of your target company's legal position, its books and registers, commercial agreements, finances and staff, among other things. Depending on the target company's operations, due diligence may also focus on other aspects, such as intellectual property, regulatory requirements, including government permits and approvals, real estate and environmental compliance. While it is very quick in some cases, **due diligence can take several weeks** depending on the size of the transaction, the target company's industry and the parties involved.

Due diligence allows negotiations to continue on more solid ground. It offers the parties a clearer picture of the situation so that they can negotiate the terms of the transaction accordingly. For example, a lower acquisition price or better conditions can be negotiated where a risk of litigation is discovered, or additional guarantees can be demanded where the documentation provided does not support projected revenues.

Negotiations are often held while the merger agreement or share or asset purchase agreement is being prepared. The transaction can be completed in a single step, meaning that the agreement is signed and the transaction closed at the same time, or in two steps, meaning that the agreement is signed and the transaction is closed after a number of conditions are met.

Infrastructure

For the period of 2025–2035, the Quebec government plans to invest **$164 billion in public infrastructure**, representing a $11 billion increase over the previous plan. These investments will prioritize health, education, housing, and transportation, with a strong focus on asset maintenance and modernization.



Tax considerations

In Canada, both the federal and provincial governments have the power to tax. The respective systems of each level of government are, however, largely harmonized.

Four tax aspects are especially relevant to operating a business in Quebec:

— Income tax
— Employer costs
— Consumption taxes (GST and QST)
— Tax incentives

Income tax

A business's income tax treatment can vary greatly depending on its legal form.

A branch is taxed on business income earned in Canada at the same rate as a business corporation. An additional tax is also payable on any income earned in Canada that is not reinvested (the equivalent of a dividend paid to the parent company if the business was operated through a subsidiary). Once again, the tax rate will normally be the same as the tax rate on dividends paid to non-resident shareholders of a business corporation.

A business corporation is taxed on its worldwide source income, including its business income earned in Canada. In the case of a Quebec business corporation ultimately controlled by non-residents of Canada, the current combined federal and provincial income tax rate will be 26.5%.

A Quebec resident who holds shares in a Canadian corporation and receives a taxable dividend from that corporation must pay a tax whose maximum combined rate will vary between 40.11% and 48.7%, depending on the type of dividend received. On the other hand, if a shareholder of that same corporation is a foreign parent company, the corporation will be required to withhold and remit tax on the dividend at a rate of 25%[1].

A partnership is a transparent entity for income tax purposes, and its partners will be personally taxed on their share of the partnership income, at their applicable personal rate.

Employer costs

A business that has employees in Canada, regardless of its legal form, must register as an employer for the purpose of source deductions, withholding tax and contributions to various programs. In Quebec, employer costs amount to approximately 13%[2] of the employee's gross salary.

Consumption taxes

Whether it operates as a branch or a subsidiary, **a business must register for taxes, collect taxes from clients for "taxable supplies" sold, and remit them to the tax authorities**. Each province is free to enact its own provincial tax, to which is added a set federal tax. As a result, the combined sales tax applicable in each province varies from 5% to 15%. The combined rate in Quebec is 14.975%. A business can generally ask for a refund of taxes paid to purchase goods and services needed to operate.

Tax incentives

There are a number of tax measures related to investment and employment creation available in Quebec. As a general rule, any business that operates in Quebec, including foreign corporate subsidiaries and branches, can take advantage of these tax measures; only some provisions are reserved exclusively for Canadian-controlled corporations.

Tax incentives are available for the following industries:

- Scientific research and experimental development
- Manufacturing
- Natural resources
- E-business development
- Cultural industry and multimedia
- Financial services
- Mining
- Cleantech and clean energy.

1. The withholding tax rate may be lower depending on the applicable tax treaty, and certain specific rules may apply.

2. Excluding vacation pay, which varies according to the employee's length of service.

Clean tech and energy transition

Quebec is the **No. 1 renewable energy producer in North America and saw $1.1 billion in FDI directed toward cleantech projects** in the 2024-2025 fiscal year. The province's vast hydroelectric resources provide a sustainable and cost-competitive energy source.

Labour and employment

In Quebec, the field of labour relations is largely governed by the provincial government under the *Civil Code of Québec* and various related laws.

Employment contracts

Under the *Civil Code of Québec*, any employment relationship gives rise to a contractual relationship between an employer and an employee. An employment contract may be tacit or formal, and its term is presumed to be indefinite.

Under such a contract, the employer is required, in particular, to (i) allow the performance of the work, (ii) pay the remuneration fixed and (iii) take appropriate measures to protect the employee's health, safety and dignity. The parties may specify the terms in writing and add, for example, non-competition and non-solicitation undertakings, as well as undertakings to protect the personal information held by that employer in the course of activities.

Minimum rights guaranteed

The *Act respecting labour standards* (the "ALS") establishes the minimum requirements from which no employment contract may derogate. These standards apply to all workers other than senior executives and stipulate the following, in particular:

A worker is entitled to a minimum wage of $16.10 per hour (revised annually).

The standard work week is 40 hours, after which each hour of overtime must be paid at a higher rate.

A worker accumulates the right to a minimum annual leave ranging from one day to three weeks and the right to an annual leave indemnity equivalent to 4% or 6% of his or her gross wages during the year, determined on the basis of months or years of service with the employer.

A worker is entitled to maternity, paternity, parental or adoption leave, as well as to absences owing to sickness.

A worker is entitled to a workplace free from psychological harassment (including sexual harassment), with an obligation on the employer to prevent and put a stop to any such behaviour.

Similarly, the ALS provides that an employer must give an employee written notice prior to terminating their employment contract or laying them off after six months following the date of hire. The notice can be one to eight weeks' notice (unless compensation in lieu of notice is paid), depending on the employee's years of service with the employer. The *Civil Code of Québec* likewise states that notice of termination of an employment contract (or compensation in lieu of notice) must be given to the employee "in reasonable time," unless the contract is terminated for a serious reason.

Indemnity for industrial accidents and occupational diseases

The *Act respecting industrial accidents and occupational diseases* (the "AIAOD") establishes a mandatory set of rules for all employers. The AIAOD defines what constitutes industrial accidents and occupational diseases subject to the Act, as well as the income replacement indemnity payable, the terms and conditions of medical assistance, compensation, rehabilitation and return to work, and the various possible remedies.

These rules are administered by the Commission des normes, de l'équité, de la santé et de la sécurité du travail (CNESST) and financed by contributions collected from employers according to their respective classification, as established by the activities they perform.

Trade union relations

In Quebec, the *Labour Code* protects the right of workers to associate in order to form negotiating groups. This law governs the period for negotiating collective agreements and limits the use of the right to strike or to a lock-out during bargaining periods. Employer representatives, such as managers, superintendents and foremen, are not considered to be "workers" within the meaning of the law.

Immigration considerations

The right to work in Canada is restricted for workers who are neither citizens nor permanent residents. As such, a Canadian business that wants to temporarily employ a foreign national generally must obtain a positive Labour Market Impact Assessment (LMIA) before the worker can apply for a temporary Canadian work permit.

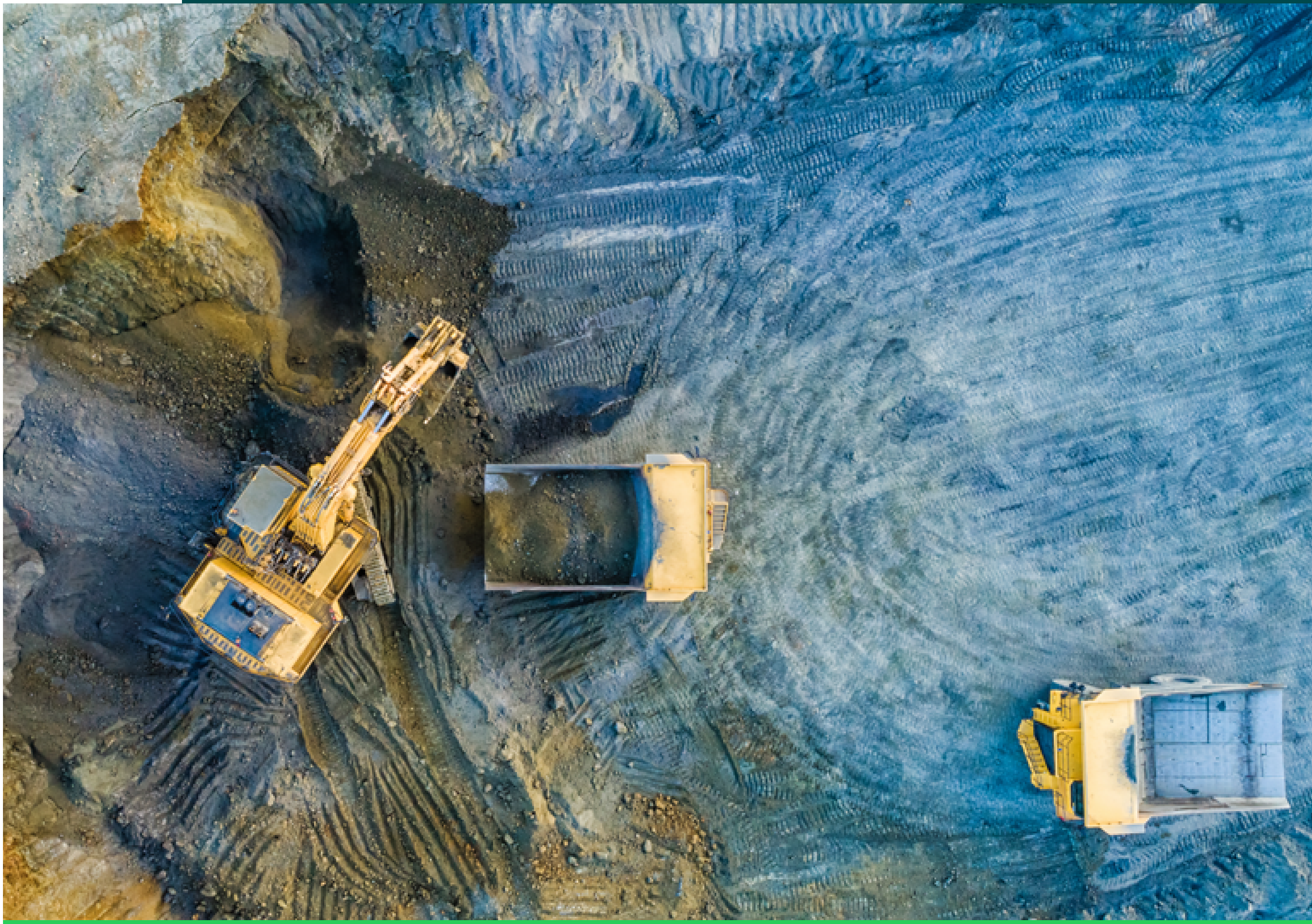
The purpose of the LMIA is to confirm the need for a temporary foreign worker and to demonstrate that no Canadian citizen or permanent resident is available to do the job. **Note that a foreign national who wants to work in Quebec must also obtain a Quebec Acceptance Certificate (CAQ) for temporary work before they can apply for a work permit.**

There are, however, exemptions to the LMIA and CAQ requirement, particularly for intra-company transferees (executives, senior management or specialized knowledge workers), specific professionals and French-speaking applicants who want to settle in a province or territory other than Quebec.

In most cases, married and *de facto* spouses of temporary foreign workers with a valid Canadian work permit of six months or longer can also obtain a valid open work permit for the same period as their spouse, and their children can attend primary or secondary school in Canada.

Mining and Critical Minerals

Quebec offers the **most diversified mineral production in Canada** and more than **50 per cent of Canada's lithium projects are based in the province**. In Quebec, the share of FDI in the mining sector increased from less than 12 per cent of the total investment in exploration and development work in 2022 to over 30 per cent in 2023.



Intellectual property

In Canada, intellectual property protection is administered by the federal government through the Canadian Intellectual Property Office (CIPO), an agency responsible for enforcing the *Patent Act*, the *Trademarks Act*, the *Copyright Act* and the *Industrial Design Act*. It is also administered by the Canadian Food Inspection Agency (CFIA), which enforces the *Plant Breeders' Rights Act*.

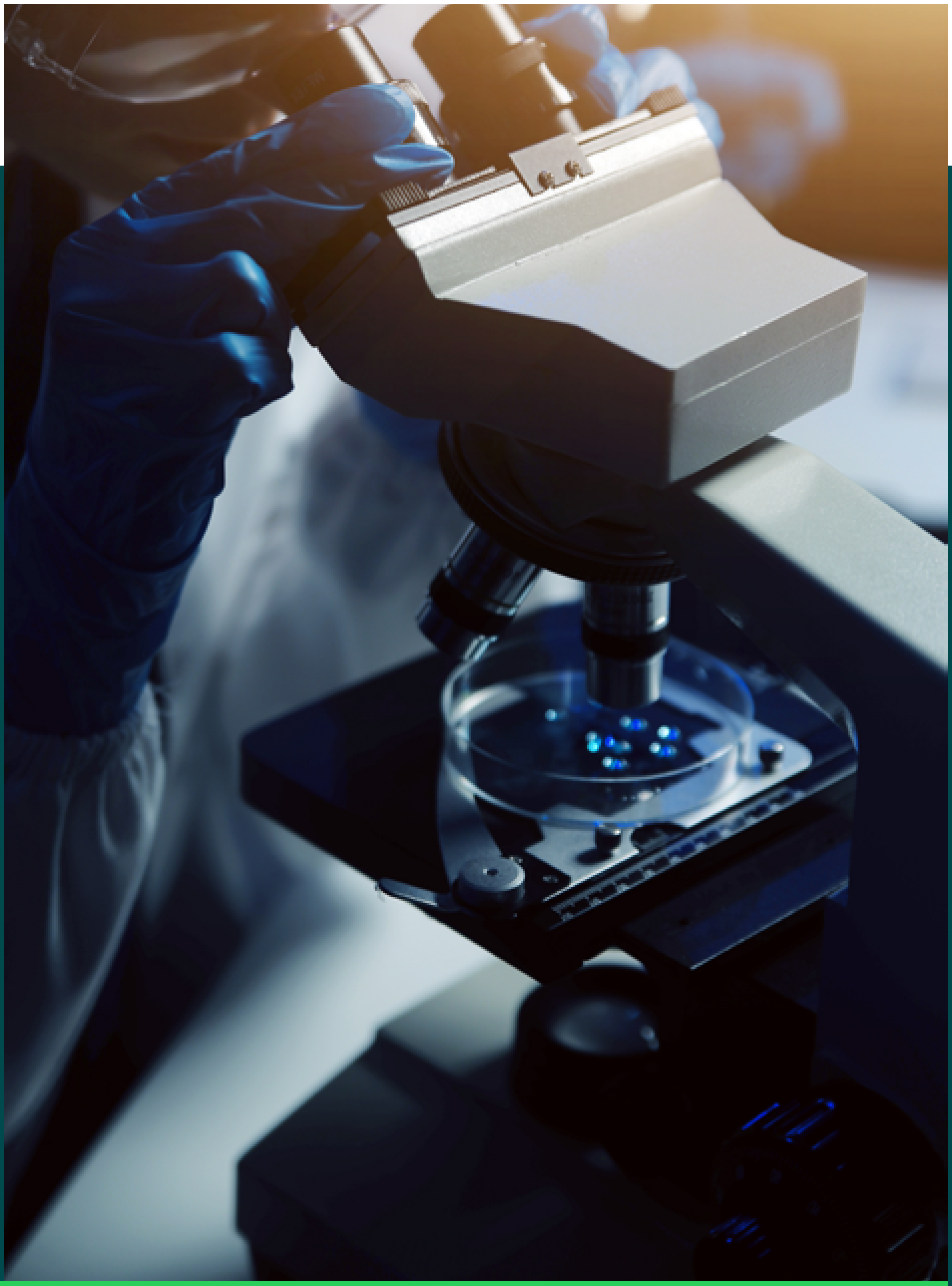
Given that the legislation governing the various forms of intellectual property falls under federal jurisdiction, registering intellectual property with CIPO extends protection to each of the Canadian provinces. Under Canadian law, certain forms of intellectual property may be recognized without the need for registration. However, such protection may be limited, and it may be difficult to prove that it exists. That being so, it is always preferable to have rights registered.

The various forms of intellectual property that can be protected in Canada include:

- **Trademarks:** They protect the combination of letters, words, sounds, symbols and other non-traditional trademark types that distinguish the products or services of one company from those of another, for renewable periods of 10 years. Provincial laws also provide protection for trademarks that are used but not registered. This protection is very limited geographically and depends on the ability to demonstrate proof of use. It is prudent not to rely on this type of protection and to register trademarks.
- **Patents:** They give inventors and their transferees the right to prevent unauthorized third parties from practising (making, using or selling) an invention (a new and useful method, machine, manufacturing process or composition of matter) for a period of 20 years from the date the patent application is filled.
- **Copyrights:** They protect in particular the right to produce, publish or perform an original work of a literary, artistic, dramatic or musical nature for the life of the author and for a period of 70 years following their death.
- **Industrial designs:** They protect the visual characteristics of a defined article with a distinctive appearance for a period of either 10 years from the date of registration or 15 years from the industrial design application filing date, whichever is latest.

- **Plant breeders' rights:** They protect the right to produce, reproduce, condition, sell, export and stock propagating material of a new plant variety for a period of 20 or 25 years from the date on which the plant breeders' rights are granted, depending on the plant species.
- **Trade secrets:** Trade secrets may be protected to a certain extent through contract law. The agreement that legally binds the signatories to such obligations will set out the terms and conditions.

Canada is also a signatory to various multilateral agreements related to intellectual property, including the *Paris Convention for the Protection of Intellectual Property*, the *Patent Cooperation Treaty*, the *Patent Law Treaty*, the *Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks* and the *Hague Agreement Concerning the International Registration of Industrial Designs*.



Life sciences

Québec's life sciences sector has seen significant growth, including a **$615 million surge in venture capital funding in 2024** and a **$422 million increase in foreign direct investment in 2024 alone**. Montréal is in the **top 15 global Life Sciences markets** in terms of inventory size.

Aerospace

Quebec's creation of **"innovation zones"** like Espace Aéro is a central strategy for attracting FDI by fostering **clusters of aerospace companies, research centers, and educational institutions**. Montreal is a unique hub where Airbus, Boeing, and Bombardier all have direct operations.

Other business considerations

In addition to the above-mentioned legal aspects, an entrepreneur who wants to operate a business in Quebec must take into account the following legal considerations:

French language

The *Charter of the French language* (the "Charter") makes French the official language of Quebec. It protects the right of every consumer to be served and informed in French and that of every employee to work in that language. It also provides that the French on any commercial sign is "markedly predominant" and that specific contracts must be drafted in French. The Office québécois de la langue française ("OQLF") is responsible for its enforcement. Under the Charter, all employees in Quebec have the right to work in French. In this regard, employers are required in particular to draw up employment contracts in French for Quebec employees and to use French in written communications to employees. The Charter also calls for caution when advertising positions in Quebec that require the incumbent to speak a language other than French. In fact, employers must critically assess the need for such a requirement. The Charter requires that certain commercial materials and specific communication media be drawn up and available in French, particularly invoices, receipts, catalogues, brochures, websites and social media content. Employers should especially be mindful of contracts of adhesion, which must be written in French unless specifically required otherwise. Depending on their number of employees, some companies are subject to additional francization obligations. These companies are closely monitored by the OQLF and must ensure that the use of French is generalized at all levels of the business in order to obtain or keep their francization certificate.

Trademarks

A "recognized" trademark within the meaning of the *Trademarks Act* (used or registered) in any language may be used, provided that a French version is not registered in Canada.

Any inscription on a product, its packaging or documents and objects that come with the product must be written in French. Another language may also be used but it cannot have greater prominence than the French inscription and cannot be available on more favourable terms.

Public signs and posters and commercial advertising must be in French. They may also be both in French and in another language, provided that French is markedly predominant.

Amendments concerning trademark use effective since June 1, 2025

It is now mandatory to translate descriptive or generic terms included in trademarks. In fact, any generic or descriptive elements in trademarks, such as flavours, ingredients and fragrances, must appear in French on the product or on a medium permanently attached to it. The name of the product as sold and the name of the company may be used in another language. The obligation to translate generic terms or descriptions contained in the trademark does not apply to the main trademarks under which the product is sold.

A transition period until June 1, 2027, is provided for non-compliant products manufactured before June 1, 2025, that contain generic or descriptive terms, as long as a French version was not registered in Canada as of June 26, 2024.

The "recognized" trademark exemption also applies to public signs and posters and commercial advertising. Such trademarks may be used on external signage, provided that no French version is registered in Canada and that the new requirements are met. The French text on external signage must be clearly predominant, meaning that it must have a greater visual impact than the text in other language. As such, the space allotted to the French text must be at least twice as large as the space allotted to the text in another language, and the French text's legibility and permanent visibility must be comparable to those of the text in another language. In addition, if a trademark or trade name is displayed in a language other than French, a generic term or slogan in French must be added.

Consumer protection

The *Consumer Protection Act* applies to contracts entered into between merchants and consumers and provides certain basic warranties and protections in favour of consumers. It sets out specific provisions governing various situations such as credit offers, distance contracts, advertising, durability of goods, loyalty programs and prepaid cards.

The law also provides that merchants must hold a permit to conduct business in specific areas, such as operating a travel agency, road vehicle dealership, money lending establishment or physical fitness studio.

Protection of personal information

The *Act respecting the protection of personal information in the private sector* and its federal counterpart protect the collection, use and disclosure of personal information by businesses. Personal information is that which relates to a natural person and may be used to identify that person, directly or indirectly. Added to these legal obligations are those in the *Civil Code of Québec* and the *Charter of Human Rights and Freedoms*, among others.

Canada's anti-spam legislation

Canada's anti-spam legislation restricts the ability of businesses to solicit participation in a commercial activity or to promote sales to consumers using electronic messages without first having obtained their express consent. While certain provisions only apply to electronic messages, the law also circumscribes the use of several other forms of telecommunications, including emails, text messages, instant messaging, social media, etc.

Lavery — Your Quebec advantage.

Lavery is Quebec's leading independent law firm, built to help organizations enter, operate, and grow in the province's distinctive legal and regulatory environment.

From Montréal, Québec City, Sherbrooke and Trois-Rivières, our 200+ legal professionals provide full-spectrum business counsel—corporate and commercial, labour and employment, litigation and dispute resolution, administrative law, and intellectual property—so clients and referring law firms get coordinated, on-the-ground support in one place.

Recognized by top legal directories and industry awards, we pair rigorous legal work with pragmatic execution, integrating seamlessly with in-house teams and external counsel to deliver timely, cost-effective outcomes.

If your matter has a "Quebec component," we make it simple: local insight, national-calibre standards and a collaborative approach that keeps business goals front and centre.

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Trusted advisors for driving business success in Quebec

signed Lavery