

Revenu Québec

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Guide to Filing the RL-11 Slip Flow-Through Shares

Québec 

This guide provides information on how to complete the RL-11 slip and form CO-359.12, *Renonciation à des frais ou attribution des montants d'aide par une société*. It does not constitute a legal interpretation of the *Taxation Act* or any other legislation.

This guide is valid **for taxation years subsequent to 2003, but only if RL-11 slips must be issued with respect to flow-through shares acquired after March 30, 2004.**

The numbers in italics at the end of certain paragraphs refer to sections of the pertinent fiscal legislation. Numbers containing the letter R refer to sections of the *Regulation respecting the Taxation Act* and numbers without a letter refer to sections of the *Taxation Act*. Section numbers appearing in the body of the text refer to the *Taxation Act*.

For additional information, please contact the Revenu Québec office in your area (see the list of offices at the end of the guide).

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1 General information

1.1 The RL-11 slip

The RL-11 slip must be completed by a **development corporation** that has agreed to issue flow-through shares and, consequently, to renounce its deduction respecting resource expenses in favour of investors. If you represent such a corporation, you must file the RL-11 slip in order to provide information concerning

- the renunciation of expenses incurred from the date the agreement was entered into to the end of the 24th month following the month in which the agreement was entered into. The renunciation can be made at any time before the end of the month of February of the year following this period;
- the allocation of amounts of assistance it received or was entitled to receive as an agent respecting the expenses mentioned in the previous point; and
- the revision of previously renounced expenses.

1.2 Related forms

Prior to filing the RL-11 slip, you must complete form CO-359.12, *Renonciation à des frais ou attribution des montants d'aide par une société*. Then use the data entered on form CO-359.12 to allocate expenses and assistance to investors on RL-11 slips. See Chapter 5 for information on filing form CO-359.12.

The RL-11 slip is also used to report share issue expenses renounced by the corporation on form CO-726.4.17.15, *Sommaire de la renonciation à certains frais d'émission relatifs aux ressources québécoises*, in favour of an individual (or a partnership whose members include an individual) that holds flow-through shares.

359.1, 359.2, 359.3, 359.5, 359.8, 359.12, 359.12.0.1, 726.4.17.12, 1086R8.13, 1086R8.14

2 Glossary

Canadian development expenses

Expenses defined in section 408.

Canadian exploration expenses

Expenses defined in section 395, as well as Canadian renewable and conservation expenses.

Deemed Canadian exploration expenses

Canadian development expenses referred to in section 359.2.1 and deemed under section 359.3 to be Canadian exploration expenses incurred by the holders of flow-through shares.

Development corporation

A corporation defined in section 363.

Expenses for exploration in northern Québec

Expenses incurred in the territory covered by the Near-North mining exploration program of the Ministère des Ressources naturelles et de la Faune or in the territory north of the 54th parallel.

Only a corporation that incurs expenses to acquire flow-through shares may claim an additional deduction of 25% with respect to these expenses in the calculation of its taxable income.

Flow-through share

A share defined in section 359.1.

Issue expenses

Expenses that are incurred for the issuance or sale of flow-through shares and that may be renounced under section 726.4.17.12.

Québec exploration expenses

Expenses referred to in subparagraph (i) of paragraph (a) of section 726.4.10. Only an individual may claim an additional deduction of 25% with respect to these expenses.

Québec surface mining or oil and gas exploration expenses

Expenses referred to in paragraph (a) of section 726.4.17.2. Only an individual may claim an additional deduction of 25% with respect to these expenses.

Resource expenses

Expenses that are incurred in Canada by a development corporation and that may be renounced under

- section 359.2, in the case of exploration expenses, except exploration expenses incurred for the acquisition or use of seismic data, if the data or the right to use them was acquired by another person before the expenses were incurred, or if all or substantially all of the data resulted from work performed more than one year before the expenses were incurred;
- section 359.2.1, in the case of deemed Canadian exploration expenses, provided they do not exceed \$1 million. However, these expenses may not be renounced by a corporation whose paid-up capital (calculated for the purposes of the tax on capital and taking sections 359.2 through 359.2.5 into account) exceeds \$15 million; or
- section 359.4, in the case of development expenses.

Selling instrument

A prospectus, registration statement, offering memorandum, term sheet or similar document that describes the terms of a corporation's offer to issue flow-through shares (including the price and number of shares).

3 Filing the RL-11 slip

3.1 Method of filing

As a rule, you must provide the required information by filing the RL-11 slip prescribed by the Deputy Minister of Revenue of Québec. The data may be submitted on

- RL-11 slips provided by Revenu Québec;
- facsimiles of the RL-11 slip; or
- computer-generated RL-11 slips.

Note

If you use in-house software to generate RL-11 slips, you must make sure that the slips meet the requirements set forth in the guide *Requirements for Facsimiles and Computer-Generated RL Slips* (IN-412-V).

Revenu Québec offers no monetary compensation to persons who provide their own RL slips.

3.2 Distribution of copies

3.2.1 Copy 1

You must submit copy 1 of the RL-11 slips to Revenu Québec, **together with form CO-359.12**. See Chapter 5 for information concerning form CO-359.12 (including the filing deadline).

3.2.2 Copies 2 and 3

You must remit copies 2 and 3 of the RL-11 slips to the beneficiaries by the deadline specified for copy 1.

3.2.3 Copy 4

You must keep copy 4 of the RL-11 slips for your records.

1086, 1086R13, 1086R17

3.3 Penalty

A penalty is payable in the case of

- a corporation that **renounces** resource expenses **after the 24th month** following the month in which the renunciation agreement was entered into; or
- a corporation whose RL-11 slips and form CO-359.12 are **filed after the prescribed deadline**.

The penalty is equal to the median amount from among the following amounts:

- \$100;
- \$15,000;
- 0.25% of the expenses or amounts of assistance concerned.

The amount of the penalty must be indicated on form CO-359.12.

359.12.2

3.4 Amendment or cancellation

If you wish to amend an RL-11 slip already submitted to Revenu Québec, you must file a corrected RL-11 slip marked "Amended." On the new RL-11 slip, be sure to indicate the number shown in the upper right-hand corner of the original slip.

To cancel an RL-11 slip already submitted, you must file a photocopy of the original slip marked "Cancelled." Make sure that the number shown in the upper right-hand corner of the cancelled slip is legible on the photocopy.

In either case, you must also file an amended copy of form CO-359.12.

4 How to complete the RL-11 slip

When completing the RL-11 slip, please print or use a typewriter. When there is no amount to be reported, leave the box blank. Complete the slips in alphabetical order, according to the names of the beneficiaries.

4.1 Explanation of boxes

4.1.1 Year

Enter, in the box marked "Année," the calendar year for which the amounts are being reported on the RL-11 slip.

4.1.2 Identification number

Enter, in the box marked "Numéro d'identification," the number on form CO-359.12 that was entered as "Numéro d'identification attribué au formulaire CO-359.10."

4.1.3 Boxes A and B

Indicate the correct amount of **Canadian exploration expenses** (box A) or **Canadian development expenses** (box B) according to the instructions given below.

For each flow-through share, the resource expenses that may be renounced by the corporation **must not exceed** either of the following amounts:

- the consideration received for the share, **minus** the total expenses renounced by the corporation in respect of the share, up to the date of renunciation;
- the total resource expenses incurred by the corporation up to the effective date of renunciation, **minus** the total expenses renounced up to the same date with respect to other shares.

359.2, 359.4

Important

If you issue flow-through shares under a receipt for a preliminary prospectus or an exemption from filing a prospectus for which the application was filed after March 11, 2005, you must write the note "Flow-through shares issued after March 11, 2005" (or "Actions accréditatives émises après le 11 mars 2005") in the centre of the slip.

4.1.4 Box D – Québec exploration expenses

These expenses are included in box A. Only an individual may establish an "exploration base relating to certain Québec exploration expenses" and add to it 25% of the amount entered in box D.

To inform the individual of the percentage to use, write the note "Box D – Expenses giving entitlement to an additional deduction of 25%" (or "Case D : frais donnant droit à une déduction additionnelle de 25 %") in the centre of the slip.

726.4.9 to 726.4.17

4.1.5 Box E – Québec surface mining or oil and gas exploration expenses

These expenses are included in box D. Only an individual may establish an "exploration base relating to certain Québec surface mining or oil and gas exploration expenses" and add to it 25% of the amount entered in box E.

To inform the individual of the percentage to use, write the note "Box E - Expenses giving entitlement to an additional deduction of 25%" (or "Case E : frais donnant droit à une déduction additionnelle de 25 %") in the centre of the slip.

726.4.17.1 to 726.4.17.9

4.1.6 Box F – Expenses for exploration in northern Québec

These expenses are included in box D. Only a corporation that invests in flow-through shares may establish an "exploration base relating to expenses for exploration in northern Québec" and add to it 25% of the amount entered in box F.

4.1.7 Box G – Amounts of assistance corresponding to the expenses reported in boxes A through F

Enter in the appropriate box the beneficiary's share of the amounts of assistance corresponding to the expenses reported in boxes A through F.

Important

Do not include in box G(A) (assistance respecting Canadian exploration expenses) the amount in box G(D) (assistance respecting Québec exploration expenses), the amount in box G(E) (assistance respecting Québec surface mining or oil and gas exploration expenses) or the amount in box G(F) (assistance respecting exploration expenses incurred in northern Québec).

However, amounts from boxes G(E) and G(F) must be included in box G(D) since they are amounts of assistance included in the amount of assistance respecting Québec exploration expenses.

4.1.8 Box H – Share issue expenses

A renunciation of share issue expenses can be made only in favour of an individual, or a partnership whose members include at least one individual. However, such a renunciation cannot be made in the case of flow-through shares issued after June 12, 2003, but before March 31, 2004.

Use the following formula to calculate these issue expenses for each beneficiary: $(A \times B \div C) - D$, where

- A represents the aggregate of the share issue expenses renounced by the corporation on form CO-726.4.17.15, as claimed on the current RL-11 slip;
- B represents the aggregate of the Québec exploration expenses paid with the proceeds of the share issue and renounced by the corporation in favour of the beneficiary up to the day the issue expenses were renounced;
- C represents the aggregate of the Québec exploration expenses paid with the proceeds of the share issue (or that may reasonably be expected to be incurred in Québec and paid with such proceeds), and renounced or to be renounced by the corporation in favour of the beneficiaries; and

D represents the aggregate of the share issue expenses, i.e, amounts which were included on the RL-11 slips already issued to the beneficiary with respect to the same share issue.

It should be noted that, with respect to a given share issue, the amount an individual may add to his or her issue base relating to certain issue expenses must under no circumstances exceed

- the consideration paid by the individual to acquire shares from the share issue;
- minus the aggregate of
 - all expenses the corporation renounced (or may reasonably be expected to renounce) in favour of the individual, under section 359.2 or 359.4, in respect of shares from the share issue, and
 - all share issue expenses previously included on the individual's RL-11 slips, in respect of the issue.

You must follow this rule to determine the amount to report in box H.

726.4.17.10, 726.4.17.11 (1st par. (a) and 2nd par.)

4.2 Identification

4.2.1 Beneficiary of the renunciation

Name and address

Under the heading "Bénéficiaire de la renonciation (nom et adresse)," enter the beneficiary's name and last known address, including the postal code.

Social insurance number or identification number

Under the heading "Numéro d'assurance sociale ou numéro d'identification du bénéficiaire," enter the social insurance number if the beneficiary is an individual; otherwise, enter the identification number.

4.2.2 Development corporation

Under the heading "Société de mise en valeur (nom et adresse)," enter the name and address of the corporation.

Be sure to indicate the effective date of renunciation in the space marked "Date à laquelle la renonciation prend effet" in the case of a development corporation that is **renouncing** resource expenses, **allocating** amounts of assistance respecting renounced expenses, or **correcting** the amount of expenses it renounced previously.

5 Form CO-359.12

You must complete form CO-359.12 in order to advise Revenu Québec that the corporation you represent is **renouncing resource expenses** it incurred or **allocating amounts of assistance** it received, or was entitled to receive, as an agent. No renunciation of resource expenses will be recognized if form CO-359.12 is not filed. Moreover, a corporation that neglects to file the form when allocating an amount of assistance is deemed not to have incurred the portion of expenses corresponding to the amount in question.

You must also complete form CO-359.12 to **make corrections to previously renounced expenses** in order to

- take into account expenses that were not in fact incurred (in which case the renounced expenses must be reduced);
- take into account a reclassification of exploration expenses (including deemed exploration expenses) and development expenses.

You must also issue amended RL-11 slips indicating the revised amounts of expenses.

You may pay any amount owing by cheque or money order made payable to Revenu Québec; please indicate the corporation's identification number on the back of the cheque or money order.

5.1 Expenses that may be renounced

To be renounced, resource expenses **must have been incurred no later than the effective date of the renunciation**, which, at the discretion of the corporation, can be on or before the date indicated in section 4 of form CO-359.12.

However, an exception to this rule does make it possible to renounce expenses incurred after the effective date of renunciation. The expenses in question are deemed to have been incurred by the investors on the effective date of the renunciation.

359.2, 359.2.1, 359.3, 359.4, 359.5, 359.12, 359.12.0.1

A corporation may renounce **expenses deemed to have been incurred on the last day of the calendar year** ("year concerned") provided it does so in January, February or March of the following year ("second year"). Such a renunciation may be made with respect to certain exploration expenses (including deemed exploration expenses) or certain development expenses which the corporation **expects to incur in Canada during the second year**. However, this option is open to the corporation only if the following conditions are satisfied:

- The share issue agreement was entered into during the year concerned.
- The shares to be issued were paid for, in money, before the end of the year concerned.
- The corporation was dealing at arm's length, throughout the year concerned, with the investors in favour of whom it made the renunciation.
- The corporation files form CO-359.12 by the prescribed deadline (see Part 5.3).
- The renunciation takes effect on the last day of the year concerned.

It is important to note that **for each month of the second year (excluding January)** in which the corporation does not incur in Québec the estimated amount of expenses it was supposed to incur, it must pay a special tax to Revenu Québec on the expenses not incurred. To calculate the tax, complete the section entitled "Impôt sur les frais réputés engagés au Québec" in Part 3 of form CO-359.12.

If, at the end of the second year, the corporation has not yet incurred all the expenses that it renounced, and that were to be incurred in Québec, it must revise its renunciation in order to take the non-incurred expenses into account.

359.8, 359.15, 1129.60

5.2 False statements or omissions respecting a renunciation or amounts of assistance

A corporation that knowingly, or through circumstances amounting to gross negligence, makes a false statement or an omission respecting a renunciation or an amount of assistance, or allows or participates in the making of such a statement or omission, **is liable to a penalty** equal to one of the following amounts (as applicable):

- 25% of the amount by which the amount renounced on form CO-359.12 **exceeds** the amount that the corporation was entitled to renounce. In the case of expenses deemed to have been incurred on the last day of the year concerned, the excess amount is calculated exclusively on the basis of information the corporation knew or should have known at the end of that year; or
- 25% of the amount by which the amount of assistance that should have been indicated **exceeds** the amount of assistance indicated on form CO-359.12.

1049.0.1, 1049.0.1.0.1, 1049.0.1.1

5.3 Filing deadline

To **renounce resource expenses**, the development corporation must file RL-11 slips and form CO-359.12 before the end of the month following the month of the renunciation.

Where these documents are **filed late**, they will nonetheless be accepted and deemed to have been filed by the prescribed deadline if the following conditions are satisfied:

- The documents are filed within 90 days following the prescribed deadline, or later if Revenu Québec judges a longer time limit to be fair and reasonable in the circumstances.
- The corporation includes payment of the prescribed penalty (see Part 3.3).

To **allocate amounts of assistance** it received or was entitled to receive as an agent, the corporation must file the RL-11 slips and form CO-359.12 before the end of the month following the month in which it learned, for the first time, that a person to whom it had issued a flow-through share was entitled to a portion of the amounts of assistance.

The conditions for **late filing** in the case of an allocation of assistance are the same as those described above for a renunciation of resource expenses.

359.12, 359.12.0.1, 359.12.1

To **reduce previously renounced expenses**, the corporation must file another CO-359.12 form (with section 3 completed) together with amended RL-11 slips. The corporation is liable to a penalty if it fails to file the documents within the prescribed deadlines:

- In the case of a reduction made at the request of Revenu Québec, you must file the form **within 30 days after the date on which the request is sent**.
- In the case of a reduction made on the corporation's initiative, with respect to expenses deemed to have been incurred on the last day of a calendar year (that is, the year to which the renunciation applies, called the "first year"), you must file the form **within the first two months of the third year**.

Excellent service at all our offices

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- Les Galeries Saint-Laurent
2215, boulevard Marcel-Laurin
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Québec

3800, rue de Marly
Québec (Québec) G1X 4A5

Québec

200, rue Dorchester
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Sept-Îles

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Information concerning individuals and individuals in business

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Information concerning businesses, employers and consumption taxes

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Information service for persons with a hearing impairment
Montréal 514 873-4455 Elsewhere in Canada 1 800 361-3795

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