

COORDINATED CANNABIS TAXATION AGREEMENT

BETWEEN

THE GOVERNMENT OF CANADA

AND

THE GOVERNMENT OF QUEBEC

Coordinated Cannabis Taxation Agreement

BETWEEN:

The Government of Canada (referred to in this Agreement as “Canada”), as represented by the Minister of Finance of Canada,

AND:

The Government of Quebec (referred to in this Agreement as “Quebec”), as represented by the Minister of Finance of Quebec and by the Minister responsible for Canadian Relations and the Canadian Francophonie,

TOGETHER referred to in this Agreement as the “Parties”.

THE PARTIES AGREE AS FOLLOWS:

Part I

Interpretation

1. The following definitions apply in this Agreement.

“additional duty”, in respect of a coordinated province, means the duty in respect of the coordinated province imposed under the Excise Act, 2001 on cannabis products in addition to the federal cannabis duty.

“additional duty rate”, at any time in respect of a coordinated province, means a rate of duty for, or in relation to, the coordinated province that is applicable, at that time, to determine and calculate the additional duty in respect of the coordinated province.

“Agreement” means this coordinated cannabis taxation agreement, entered into by Canada with Quebec under Part III.2 of the Federal-Provincial Fiscal Arrangements Act and the *Act respecting the Ministère du Conseil exécutif*, C.Q.L.R. c. M-30, including the Annex attached to it, and, subject to the approval of the Parties in conformity with those laws, all instruments amending or restating it, or any successor agreement to it.

“business day” means a day that is neither a Saturday nor a day defined as a holiday within the preamble to the definition of that word in subsection 35(1) of the *Interpretation Act*, R.S.C. 1985, c. I-21, as amended from time to time.

“commencement day” has the same meaning as in section 152 of the *Cannabis Act*, being Bill C-45, introduced in the 1st session of the 42nd Parliament and entitled *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and other Acts*.

“coordinated cannabis duty” means the federal cannabis duty and the additional duty in respect of each coordinated province.

“coordinated province”, at any time, means a province that has entered into a coordinated cannabis taxation agreement with Canada under Part III.2 of the Federal-Provincial Fiscal Arrangements Act and applicable provincial legislation, if any, and that, at that time, is a province in respect of which additional duties are applicable.

“Customs Act” means the *Customs Act*, R.S.C. 1985, c. 1 (2nd Supp.), as amended from time to time.

“Excise Act, 2001” means the *Excise Act, 2001*, S.C. 2002, c. 22, as amended from time to time.

“federal cannabis duty” means the duty payable in respect of cannabis products under the Excise Act, 2001 that applies in respect of cannabis products intended for consumption, use or sale in a province irrespective of whether the province is a coordinated province.

“Federal-Provincial Fiscal Arrangements Act” means the *Federal-Provincial Fiscal Arrangements Act*, R.S.C. 1985, c. F-8, as amended from time to time.

“fiscal year” means a period of 12 months beginning on April 1st.

“province” has the same meaning as in subsection 35(1) of the *Interpretation Act*, R.S.C. 1985, c. I-21, as amended from time to time.

“Provincial Sales Tax” in respect of a province means a retail sales tax that applies to a broad base of property or services, or a similar transaction tax that applies to a broad base of property or services, in respect of the province, including the new harmonized value-added tax system as defined in subsection 277.1(1) of the *Excise Tax Act*, R.S.C. 1985, c. E-15, as amended from time to time.

2. Unless otherwise specified, words or expressions used in this Agreement have the same meaning as in the *Excise Act*, 2001. Where a word is defined in this Agreement or that Act, other parts of speech and grammatical forms of the same word have corresponding meanings.

3. The Annex that is attached to this Agreement forms an integral part of this Agreement.

Part II

Implementation

4. Subject to the requisite legislative approvals, the Parties agree:

- (a) to work collaboratively and in a timely manner towards the imposition of the additional duty in respect of Quebec;
- (b) that Canada will make best efforts to introduce, on or before commencement day, the necessary legislative amendments to give effect to the Agreement;
- (c) that the additional duty in respect of Quebec will be implemented by Canada on commencement day; and
- (d) that the systems necessary for the Minister of National Revenue to effectively administer and enforce the additional duty in respect of Quebec, and the systems necessary for the collection contemplated by clause 33 at Canadian international borders by the Minister of Public Safety and Emergency Preparedness of Canada, will be in place as of commencement day.

5. Unless otherwise mutually agreed upon between the Parties and subject to the terms and conditions of this Agreement,

- (a) Quebec has made a public announcement, before commencement day, in respect of this Agreement and the additional duty as described in this Agreement;
- (b) Quebec has, as soon as possible following the public announcement referred to in paragraph (a), tabled and adopted in Spring 2018 in the National Assembly, the instruments necessary to allow the provisions of this Agreement to be applied, including in particular those provisions in relation to the additional duty in respect of Quebec; and
- (c) if Quebec provides Canada with the proposed text of the public announcement referred to in paragraph (a), Canada agrees to review that proposed text in a timely manner.

Part III

Additional Duty Rate

6. The Parties agree that the additional duty will be determined as the greater of a flat-rate duty and an *ad valorem* duty, as provided for under the Excise Act, 2001.

7. The Parties agree that the federal cannabis duty rates for the flat-rate duty applicable to a cannabis product will be the following as of commencement day:

- i) \$0.25 per gram of flowering material included in the cannabis product or used in the production of the cannabis product;
- ii) \$0.075 per gram of non-flowering material included in the cannabis product or used in the production of the cannabis product;
- iii) \$0.25 per viable seed included in the cannabis product or used in the production of the cannabis product; and
- iv) \$0.25 per vegetative cannabis plant included in the cannabis product or used in the production of the cannabis product.

8. The Parties agree that the federal cannabis duty rate for the *ad valorem* duty applicable to a cannabis product will be 2.5% of the dutiable amount as of commencement day.

9. The Parties agree that the additional duty rates in respect of Quebec for the flat-rate duty applicable to a cannabis product will be the following as of commencement day:

- i) \$0.75 per gram of flowering material included in the cannabis product or used in the production of the cannabis product;
- ii) \$0.225 per gram of non-flowering material included in the cannabis product or used in the production of the cannabis product;
- iii) \$0.75 per viable seed included in the cannabis product or used in the production of the cannabis product; and
- iv) \$0.75 per vegetative cannabis plant included in the cannabis product or used in the production of the cannabis product.

10. The Parties agree that the additional duty rate in respect of Quebec for the *ad valorem* duty applicable to a cannabis product will be 7.5% of the dutiable amount as of commencement day.

11. [Intentionally omitted]

12. [Intentionally omitted]

13. The additional duty rates in respect of Quebec set out in clauses 9 and 10 shall remain at the same fixed proportion to the corresponding federal cannabis duty rates and any change by Canada to a federal cannabis duty rate shall result in a proportional change to the corresponding additional duty rate set out in clause 9 or 10.

14. [Intentionally omitted]

15. If Quebec distributes cannabis products at the wholesale or retail level or uses Crown corporations or agents to do so, the Parties agree that margins and mark-ups shall be reasonable and shall only be applied to cover operating costs and capital expenses and to generate a normal rate of return comparable to what would be expected in the private sector.

16. If Quebec does not have a Provincial Sales Tax or if the highest rate of the Provincial Sales Tax in respect of Quebec applicable to cannabis products is lower than the highest prevailing general Provincial Sales Tax rate in Canada, the margins or mark-ups in respect of Quebec may also be applied to reflect the difference between those sales tax rates. For the purposes of clause 15, a margin or mark-up that is applied in respect of Quebec is not to be considered as exceeding a reasonable margin or mark-up if that excess relates solely to the application of a margin or mark-up under this clause to compensate for that difference between those sales tax rates.

17. Quebec agrees to take, throughout the term of this Agreement, all actions necessary to give effect to the conditions related to margins and mark-ups set out in clauses 15 and 16.

Part IV

Coordinated Duty Base

18. Quebec agrees that the duty base for the additional duty in respect of Quebec must remain common with the duty base for the federal cannabis duty in order to maintain a coordinated duty base between the federal cannabis duty and the additional duty in respect of Quebec. Quebec agrees that Canada is responsible for determining the cannabis products that are subject to both federal cannabis duty and additional duty in respect of Quebec.

19. Canada may propose any duty base change in respect of the federal cannabis duty and Quebec agrees to be bound by all duty base changes that are implemented in respect of the federal cannabis duty.

Part V

Provincial Revenues

20. For each particular month, Canada shall determine the positive or negative amount (referred to as the "Additional Duty Monthly Amount") determined by the formula

$$A + B - C$$

where

- A is the aggregate of all amounts of additional duty in respect of Quebec assessed or reassessed under the Excise Act, 2001 during the particular month in respect of any reporting period;
- B is the aggregate of all amounts of additional duty in respect of Quebec accounted for under the *Customs Act* during the particular month; and

C is the aggregate of all amounts of any rebate or remission, or amounts otherwise refunded, as or on account of additional duty in respect of Quebec in the particular month.

21. For greater certainty, for the purposes of clauses 20 and 27 an amount reassessed under the Excise Act, 2001 means the positive or negative amount that is the difference between the amount of the reassessment and the amount of the previous assessment or previous reassessment, as the case may be, to which the reassessment relates.

22. For greater certainty, amounts assessed or collected as interest or penalties payable under the Excise Act, 2001 are not included in the determination of Additional Duty Monthly Amounts and any amounts determined under clause 27.

23. If the Additional Duty Monthly Amount for a particular month is greater than zero, that Amount shall be paid by Canada, in accordance with the Federal-Provincial Fiscal Arrangements Act, to Quebec on the first business day of the third month following the particular month. The amount paid may assist to further the achievement of the objects of the Cannabis Sales Revenue Fund, to the extent determined by Quebec.

24. If the Additional Duty Monthly Amount for a particular month is less than zero, that Amount becomes due and payable by Quebec as a debt due to Canada on the first business day of the third month following the particular month.

25. The Additional Duty Monthly Amount and any amounts determined under clause 27 will not be adjusted to account for the time-value of a payment schedule set out in this Part.

26. For each particular month, Canada shall provide to Quebec in a timely fashion a statement of the determination of the Additional Duty Monthly Amount for that particular month.

27. If the Agreement is terminated on a particular day for any reason, on or before the last day of the sixty-third month following the particular day

- (a) Canada shall, on the basis of information available on another day that is the last day of the sixtieth month following the particular day, determine the positive or negative amount determined by the formula

$$A + B - C$$

where

A is the aggregate of all amounts of additional duty in respect of Quebec assessed or reassessed under the Excise Act, 2001 at any time on or after the particular day but before the other day that were not included in the determination of previous payments made to Quebec under this Part,

B is the aggregate of all amounts of additional duty in respect of Quebec accounted for under the *Customs Act* at any time on or after the particular day but before the other day that were not included in the determination of previous payments made to Quebec under this Part, and

C is the aggregate of all amounts of any rebate or remission, or amounts otherwise refunded, as or on account of additional duty in respect of Quebec at any time on or after the particular day but before the other day that were not included in the determination of previous payments made to Quebec under this Part;

- (b) Canada shall provide to Quebec with a statement of the determination of the amount calculated in accordance with paragraph (a); and
- (c) if the amount calculated in accordance with paragraph (a) is positive, that amount shall be paid by Canada, in accordance with the Federal-Provincial Fiscal Arrangements Act, to Quebec.

28. If the amount calculated in accordance with paragraph 27(a) is negative, that amount becomes due and payable by Quebec as a debt due to Canada on the last day of the sixty-third month following the day on which the Agreement is terminated.

Part VI

Inter-Provincial Sales

29. Subject to the requisite legislative approvals, the relevant federal legislation will specify that

(a) the additional duty in respect of Quebec applies to cannabis products intended for consumption, use or sale in Quebec and does not apply to cannabis products intended for consumption, use or sale outside Quebec, as determined by the rules under the Excise Act, 2001; and

(b) a person that is outside Quebec and that is liable to pay additional duties in respect of Quebec is required to pay those additional duties, as determined in accordance with paragraph (a).

Part VII

Imposition of Duty at Canadian International Borders

30. The importation into Canada of cannabis products intended for consumption, use or sale in Quebec will be subject to the additional duty in respect of Quebec in accordance with the rules applicable to the importation of cannabis products into Canada under the Excise Act, 2001 and any other special rules under that Act developed for purposes of the additional duty in respect of Quebec.

31. Except for the additional duty in respect of Quebec, Canada will neither assess nor collect under this Agreement any product-specific tax, levy or mark-up imposed by Quebec in respect of the importation of cannabis products, subject to a specific tax collection agreement between Canada and Quebec.

Part VIII

Coordinated Duty Administration

32. The Minister of National Revenue will administer and enforce the coordinated cannabis duties payable under the Excise Act, 2001. The Parties acknowledge that Canada will be solely responsible for all costs related to this administration and enforcement, including the collection referred to in clause 33.

33. Despite clause 32, the Parties acknowledge that the collection of the coordinated cannabis duties payable under the Excise Act, 2001 in respect of imported cannabis products is a responsibility of the Minister of Public Safety and Emergency Preparedness of Canada.

34. The administration and enforcement contemplated by clause 32 and the collection contemplated by clause 33 will be at service and compliance levels that are at least as high as those applied to the administration and enforcement of the federal cannabis duties. The service and compliance levels will be documented in a manner agreeable to Quebec and each of the Canada Revenue Agency and the Canada Border Services Agency and will be mutually amended on a timeline and by a process agreeable to Quebec and each of the Canada Revenue Agency and the Canada Border Services Agency, respectively. The levels of the administration and enforcement contemplated by clauses 32 and 33 will be commensurate with the incremental compliance risk and service requirements associated with the administration of the coordinated cannabis duties pursuant to this Agreement, in relation to other tax programs administered by the Minister of National Revenue and in relation to similar programs administered by the Minister of Public Safety and Emergency Preparedness of Canada.

35. Each of the Canada Revenue Agency and the Canada Border Services Agency will discuss work plans, activities and results relating to the service and compliance levels referred to in clause 34 with Quebec in a bilateral manner, and with all coordinated provinces and will make all reasonable efforts to accommodate concerns expressed by the coordinated provinces in relation to those work plans, activities and results.

Part IX

Exchange of Information

36. The Parties agree to co-operate fully in exchanging such information regarding the additional duty in respect of Quebec as may be disclosed pursuant to applicable laws and regulations. The specific terms on information exchange, and mutual assistance, between the Canada Revenue Agency and Quebec, and between the Canada Border Services Agency and Quebec, including the assurance of the timely provision to Quebec of available data that is specific to, or otherwise related to, the additional duty in respect of Quebec, will be set forth in agreements regarding information exchange and mutual assistance entered into between the Canada Revenue Agency and Quebec, and between the Canada Border Services Agency and Quebec, as amended from time to time by the parties to those agreements.

37. If Quebec distributes cannabis products at the wholesale or retail level or uses Crown corporations or agents to do so, the Parties agree that if Canada is uncertain that the application of the margins or mark-ups in respect of Quebec conforms with clauses 15 and 16, Canada may request from Quebec, and Quebec agrees to provide Canada in a timely manner, all information related to margins and mark-ups that is reasonably necessary to assess whether the application of those margins and mark-ups conforms with those clauses.

38. Any agreement referred to in clause 36 regarding information exchange and mutual assistance will provide for the sharing of confidential information that relates to specific persons in accordance with applicable laws, including section 211 of the Excise Act, 2001.

Part X

Litigation

39. Canada will be responsible for the conduct of litigation in respect of the coordinated cannabis duties.

Part XI

Cannabis Taxation Policy

40. The Parties agree that a Cannabis Taxation Policy Committee, consisting of representatives from Canada and each coordinated province, will be tasked with overseeing the coordinated cannabis duty system. The Committee will review issues related to the legislation governing the coordinated cannabis duty, including the common duty base, duty rates and common duty structure. It will regularly monitor the cannabis market to ensure that tax rates, mark-ups and margins are in keeping with the principles of this Agreement and will identify potential adjustments that could support the objectives of legalization over time. In conducting these duties, the Committee will provide timely advice, as appropriate, to the relevant federal and provincial Ministers of Finance. In particular, the Committee will report back to the federal and provincial Ministers of Finance in December 2018 on the effectiveness of the coordinated approach to cannabis taxation and the impacts on governments, including municipalities, and identify potential adjustments that could support the objectives of legalization over time.

41. The Minister of Finance of Canada and the Ministers of Finance of each coordinated province will each appoint an individual to act, and serve from time to time, as that party's representative on the Cannabis Taxation Policy Committee.

42. Canada will chair the meetings of any committee, sub-committee or working group referred to in this Agreement.

43. Meetings of the Cannabis Taxation Policy Committee will be held as and when agreed upon by consensus between Canada and the coordinated provinces from time to time. Unless otherwise agreed upon between Canada and the coordinated provinces, the Cannabis Taxation Policy Committee will meet at least twice in each twelve-month period.

44. Canada and the coordinated provinces will each communicate, as appropriate, the results of the deliberations of the Cannabis Taxation Policy Committee to the relevant federal and provincial Deputy Ministers of Finance.

45. The Cannabis Taxation Policy Committee may, in its discretion, establish special working groups to consider issues or matters related to the purposes of the Committee as set forth under clause 40.

46. If the Cannabis Taxation Policy Committee cannot reach consensus in respect of an issue under its review, the issue will be referred to the Deputy Minister of Finance of Canada and of each coordinated province.

47. If an issue referred to the Deputy Ministers described in clause 46 remains unresolved, the issue will be referred to the dispute resolution process set forth in the applicable provisions of Part XII.

48. Canada and the coordinated provinces will, before January 1, 2020, review the coordinated cannabis duty system as well as its operation and administration with a view to developing potential approaches to improve that system and assessing whether and how that system should be modified, such as in relation to rate flexibility for the additional duty, the rules governing the fixed proportion of the rates of duty and the levels of margins or mark-ups. Subject to mutual agreement between Canada and the coordinated provinces, the timing of such review may be varied.

Part XII

Dispute Resolution

49. Best efforts will be exercised by federal and provincial officials to reach consensus in respect of issues arising in respect of matters governed by this Agreement.

50. Subject to clause 51, issues not resolved by federal and provincial officials will be referred to the Minister of Finance of Canada and the Ministers of Finance of the relevant coordinated provinces.

51. If the issue relates to the administration of the coordinated cannabis duties contemplated by clause 32, the issue will be referred to the Minister of National Revenue, the Minister of Finance of Quebec and, if applicable, to the appropriate Minister of relevant coordinated provinces, with notice of same to the Minister of Finance of Canada. If the issue relates to the collection of the coordinated cannabis duties contemplated by clause 33, the issue will be referred to the Minister of Public Safety and Emergency Preparedness of Canada, the Minister of Finance of Quebec and, if applicable, to the appropriate Minister of relevant coordinated provinces, with notice of same to the Minister of Finance of Canada and the Minister of National Revenue.

52. If an unresolved issue has been referred to the Ministers described in clause 50 or 51, those Ministers may refer the issue to a third party for consideration and advice.

Part XIII

Term, Amendment and Termination

53. The terms and conditions of this Agreement will continue in full force and effect, in accordance with and subject to the provisions of this Part, until the date that is specified by a Party in a written notice that is delivered to the other Party setting out the Party's desire to terminate this Agreement.

54. Any amendment to this Agreement must be made in writing through mutual agreement of the Parties and subject to any necessary approvals, authorizations or applicable legislative requirements.

55. Any amending document mutually agreed upon between the Parties will form a part of this Agreement and will be effective as of the date specified in that amending document.

56. Either Party may deliver to the other Party a written notice of termination to be effective no sooner than the end of the three-month period that immediately follows the last day of the calendar month in which the written notice of termination is received or any other time period

that may be mutually agreed upon between the Parties. The Parties agree that the termination date set out in such a written notice of termination will be the last day of a month.

57. On termination of this Agreement, all rights and obligations of Canada and Quebec under this Agreement cease, except for the obligations of Canada and Quebec to settle accounts relating to amounts outstanding under this Agreement and any obligations relevant to settling these accounts.

Part XIV

Government Payment of Duties

58. Despite any applicable Crown immunity, Canada and Quebec agree to pay the coordinated cannabis duties payable under the Excise Act, 2001 by their respective governments or by agents and entities thereof.

Part XV

Province-Specific & Transitional Measures

59. The agreement of the Parties in respect of transitional payments to Quebec is set out in the Annex to the Agreement.

60. Subject to clauses 15 and 16, Quebec will take, throughout the term of this Agreement, all actions necessary to ensure that a tax, fee or similar revenue-generating instrument specifically related to cannabis products and legislated or authorized by Quebec or by Her Majesty in right of Quebec will not be imposed or levied in respect of the production, distribution, consumption, use, sale or bringing into the province of cannabis products.

61. Quebec will propose legislation that is appropriate or necessary in order to give effect to the provisions of this Agreement, unless, in accordance with applicable laws, Quebec gives effect to these provisions through other means.

Part XVI

Audit

62. The Minister of Finance of Quebec may designate a person to examine such books and records, excluding any information that is protected by law, as may be relevant in order to permit such person to report in respect of the payments made to Quebec under this Agreement.

Part XVII

Miscellaneous

63. Unless otherwise mutually agreed upon between the Parties, best efforts will be made to conclude the agreements referred to in clause 36 in a timeframe that is consistent with, and no later than, the day that is six months after commencement day.

64. If under the Agreement Quebec has received from Canada any amount in excess of the amount to which it is entitled, Canada may recover as a debt due to Canada an amount equal to that excess from any moneys that may become payable to Quebec under this Agreement or under any Act of Parliament.

65. If under the Agreement Canada has received from Quebec any amount in excess of the amount to which it is entitled, Canada shall pay to Quebec an amount equal to that excess as soon as practical following Canada becoming aware of the excess payment by Quebec.

66. The Parties agree that any amount of debt due or payment owing to Canada or Quebec under this Agreement shall not bear interest.

67. If a Party informs the other Party of a proposed change that may affect the coordinated cannabis duties under this Agreement and that is to be announced publicly by that Party in a Budget or in a similar public announcement, the other Party commits to take all actions necessary to embargo the existence of such a proposal, negotiation or agreement, unless the Parties mutually agree otherwise in writing or unless otherwise required by law. Notwithstanding the embargo commitment referred to in this clause, Canada may, prior to any public announcement of such a proposal, negotiation or agreement, discuss on a need-to-know basis with other federal government departments or agencies (such as the Department of Justice, the Canada Revenue Agency and the Canada Border Services Agency) the information required for the purposes of evaluating and developing the processes and mechanisms that may be necessary for the proper implementation, administration and enforcement in respect of such a proposal, negotiation or agreement.

68. Any written notice that Canada is required to provide under this Agreement shall be provided by means of a letter from the Minister of Finance of Canada to the Minister of Finance of Quebec. Any written notice that Quebec is required to provide under this Agreement shall be provided by means of a letter from the Minister of Finance of Quebec to the Minister of Finance of Canada.

69. This Agreement may be executed in any number of counterparts, each of which will constitute an original and all of which taken together will constitute one and the same instrument. Counterparts may be executed in original, electronic or faxed form and the Parties adopt any signatures received by electronic mail or by a receiving fax machine as the original signatures of the Parties; provided, however, that a Party providing its signature in such manner will promptly forward to the other Party an original of the signed copy of this Agreement.

70. By entering into this Agreement, neither Party is deemed to surrender or abandon any of the powers, rights, privileges or authorities vested in either of them under the *Constitution Acts, 1867-1982* (or under any amendments to those acts) or otherwise, or to impair any of such powers, rights, privileges or authorities.

71. This Agreement, including the Annex to this Agreement, constitutes the entire agreement between the Parties with respect to the subject matter of this Agreement and supersedes all prior agreements and understandings between the Parties with respect to that subject matter.

72. After execution of this Agreement, each Party will do, or cause to be done, all acts as the other Party may reasonably require from time to time for the purpose of giving effect to this Agreement and each Party will use reasonable efforts, and take all steps as may be reasonably within that Party's power, to implement to their full extent the provisions of this Agreement.

73. A Party may waive any right under this Agreement, but only in writing. If a waiver of any provision of this Agreement is executed in writing by a Party, that written waiver will not constitute a waiver of any other provision of this Agreement and will not constitute a continuing waiver unless otherwise expressly provided.

74. The waiver by a Party of a breach of a condition or term of this Agreement will not be treated as a waiver of a subsequent breach and therefore will not prevent that Party from enforcing that term or condition in the case of a subsequent breach or insisting upon performance of an obligation under the Agreement.

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IN WITNESS WHEREOF, THIS AGREEMENT IS SIGNED IN DUPLICATE, in English and in French, each version being equally authentic,

THE GOVERNMENT OF CANADA

THE GOVERNMENT OF QUEBEC

AT _____

AT _____

THIS ____ DAY OF _____

THIS ____ DAY OF _____

BY

BY

Minister of Finance for the Government of
Canada

Minister of Finance for the Government of
Quebec

AT _____

THIS ____ DAY OF _____

BY

Minister responsible for Canadian Relations
and the Canadian Francophonie for the
Government of Quebec

ANNEX

TRANSITIONAL MEASURES IN RESPECT OF QUEBEC

Interpretation

1. Unless otherwise defined in this Annex, terms used in this Annex have the same meaning as in the Agreement to which this Annex is attached.
2. The Parties agree that:
 - (a) the transitional measures set out in this Annex are available to Quebec as a consequence of Quebec's agreement to the implementation by Canada of an additional duty in respect of Quebec as of commencement day; and
 - (b) absent such agreement, such transitional measures would not be available to Quebec.
3. For greater certainty, transitional measures in the nature of those set out in this Annex are not available to a province that, unlike Quebec, does not agree to the implementation by Canada of an additional duty in respect of the province as of commencement day.

Transitional Payments

4. For each of the fiscal year that begins in 2018, the fiscal year that begins in 2019 and the fiscal year that begins in 2020, Canada shall determine the amount (referred to as the "Transitional Duty Amount") determined by the formula

$$[(A \times B) - (\$100,000,000 \times C)] \times (D/E)$$

where

A is the revenues from federal cannabis duties as accounted for in the *Public Accounts of Canada* in respect of that fiscal year;

B is

(a) in the case of the fiscal year that begins in 2020, the percentage obtained by dividing the number of days in that fiscal year that are before the second anniversary of commencement day by the number of days in that fiscal year, and

(b) in any other case, 100%;

C is

(a) in the case of the fiscal year that begins in 2018, the percentage obtained by dividing the number of days in that fiscal year that are on or after commencement day by the number of days in that fiscal year,

(b) in the case of the fiscal year that begins in 2019, 100%, and

(c) in the case of the fiscal year that begins in 2020, the percentage obtained by dividing the number of days in that fiscal year that are before the second anniversary of commencement day by the number of days in that fiscal year;

D is the total of all amounts, each of which is the Additional Duty Monthly Amount (within the meaning of clause 20 of the Agreement) in respect of Quebec for a month that ends in the fiscal year, as determined by Canada; and

E is the total of all amounts, each of which is determined for a province that is, on the last day of the fiscal year, a coordinated province and is equal to

(a) if the additional duty rates in respect of the coordinated province have been adjusted in recognition of the coordinated province not having a Provincial Sales Tax or having a general Provincial Sales Tax rate that is lower than the highest prevailing general Provincial Sales Tax rate in Canada, the total of all amounts, each of which is the amount, as determined by Canada, that would be the Additional Duty Monthly Amount in respect of the coordinated province for a month that ends in the fiscal year if all amounts of additional duty in respect of Quebec were determined in the absence of that adjustment, and

(b) in any other case, the total of all amounts, each of which is the Additional Duty Monthly Amount in respect of the coordinated province for a month that ends in the fiscal year, as determined by Canada.

5. If Quebec is a coordinated province on the last day of a fiscal year referred to in clause 4, Canada shall pay to Quebec the Transitional Duty Amount for that fiscal year on the first business day of the third month following the month in which the *Public Accounts of Canada* in respect of that fiscal year are released.

6. The Transitional Duty Amount will not be adjusted to account for the time-value of the payment schedule set out in clause 5.

7. For each fiscal year referred to in clause 4, Canada shall provide to Quebec in a timely fashion a statement of the determination of the Transitional Duty Amount for that fiscal year.

8. The payment under clause 5 in respect of a fiscal year is not payable to Quebec if Quebec has, on or before the last day of the fiscal year, committed a material breach of the Agreement.

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