

(b) Subject to the existing provisions of the law of Canada regarding the determination of the exempt surplus of a foreign affiliate and to any subsequent modification of those provisions -- which shall not affect the general principle hereof -- for the purpose of computing Canadian tax, a company resident in Canada shall be allowed to deduct in computing its taxable income any dividend received by it out of the exempt surplus of a foreign affiliate resident in Papua New Guinea.

2. In the case of Papua New Guinea double taxation shall be avoided as follows:

Subject to the provisions of the law of Papua New Guinea from time to time in force which relate to the allowance of a credit against Papua New Guinea tax of tax paid in a country outside Papua New Guinea (which shall not affect the general principle hereof), tax paid under the law of Canada and in accordance with this Agreement, whether directly or by deduction, in respect of income derived by a person who is a resident of Papua New Guinea for the purposes of the taxation law of Papua New Guinea from sources in Canada (not including, in the case of a dividend, tax paid in respect of the profits out of which the dividend is paid) shall be allowed as a credit against Papua New Guinea tax payable in respect of that income.

3. For the purposes of subparagraph (a) of paragraph 1, tax payable in Papua New Guinea by a person who is a resident of Canada in respect of profits attributable to a trade or business carried on by him in Papua New Guinea, shall be deemed to include any amount which would have been payable as Papua New Guinea tax for any year but for an exemption from, or reduction of, tax effected for that year or any part thereof by applying the following provisions:

(a) Sections 72A (3) and (4), Sections 73 (3) and (7) and Section 97 of the Papua New Guinea Income Tax Act 1959 as amended insofar as they were in force on, and have not been modified since, the date of signature of this Agreement, or have been modified only in minor respects so as not to affect their general character;

(b) any other provision which may subsequently be made granting an exemption or reduction of tax which is agreed by the competent authorities of the Contracting States to be of a substantially similar character, if it has not been modified thereafter or has been modified only in minor respects so as not to affect its general character.