

ARTICLE 4

I. The income from industrial, mining, commercial, financial and insurance enterprises is taxable by the State in the territory of which there is a permanent establishment.

II. When an enterprise has permanent establishments in both contracting States, each State shall tax the income derived from the activity of the permanent establishment situated in its territory.

III. This taxable income shall not exceed the amount of the industrial, mining, commercial or financial profits realized by the permanent establishment, including, if necessary, the profits or advantages derived indirectly from this establishment by way of increase or reduction in the purchase or sale price or by any other means. A portion of the general head office expenses of the enterprise is to be taken into account in computing the profit or loss of the different permanent establishments.

IV. It is understood between the competent authorities of the contracting States that, if necessary, they will draft rules of allocation, failing proper accounting to show distinctly and exactly the profits of the permanent establishments in the respective territories.

ARTICLE 5

I. When a Canadian enterprise, by reason of its participation in the management or capital of a French enterprise, makes or imposes on the latter, in their commercial or financial relations, conditions different from those which would be made with a third enterprise, any profits which should normally have appeared in the financial statement of the French enterprise, but which have been in this manner, diverted to the Canadian enterprise, are, subject to the measures of appeal applicable in the case of the taxation of industrial and commercial profits, included in the taxable profits of the French enterprise.

The same principle applies *mutatis mutandis*, when profits are diverted from a Canadian enterprise to a French enterprise.

II. An enterprise is considered to participate in the management or capital of another enterprise, particularly when the same persons participate directly or indirectly in the management of capital of both enterprises.

ARTICLE 6

I. Notwithstanding Article 4 of this Agreement the profits of aerial navigation or maritime enterprises having the seat of effective management in one of the two contracting States are exempt from tax in the other contracting State.

II. The exemption provided in paragraph I is limited to the profits derived from the operation of ships and aircraft. Likewise, is subject with respect to enterprises having the seat of effective management in France, to the condition that the aircraft and ships are registered in this country, and with respect to enterprises having the seat of effective management in Canada, to the condition that the aircraft are registered in this country or that the ships are registered in the said country or in the United Kingdom.