



1956-1960

CANADA
LAW REPORTS

RAPPORTS JUDICIAIRES
DU CANADA

Exchequer Court of Canada
Cour de l'Échiquier du Canada

PAUL A. RAYMOND, C.R.
WILLIAM C. McBRIDE, B.A. Sc.

Official Law Editors

Arrêtistes

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JUDGES
OF THE
EXCHEQUER COURT OF CANADA

During the period of these Reports:

PRESIDENT:

THE HONOURABLE JOSEPH T. THORSON
(Appointed October 6, 1942)

PUISNE JUDGES:

THE HONOURABLE J. C. A. CAMERON
(Appointed September 4, 1946)

THE HONOURABLE JOHN DOHERTY KEARNEY
(Appointed November 1, 1951)

THE HONOURABLE ALPHONSE FOURNIER
(Appointed June 12, 1953)

THE HONOURABLE JACQUES DUMOULIN
(Appointed December 1, 1955)

THE HONOURABLE ARTHUR LOUIS THURLOW
(Appointed August 29, 1956)

DISTRICT JUDGES IN ADMIRALTY OF THE EXCHEQUER COURT
OF CANADA

The Honourable FRED H. BARLOW, Ontario Admiralty District—appointed October 18 1938.

The Honourable SIDNEY ALEXANDER SMITH, British Columbia Admiralty District—appointed January 2, 1942.

The Honourable W. ARTHUR I. ANGLIN, New Brunswick Admiralty District—appointed June 9, 1945.

The Honourable HAROLD L. PALMER, Prince Edward Island Admiralty District—appointed August 3, 1948.

The Honourable SIR BRIAN DUNFIELD, Newfoundland Admiralty District—appointed May 9, 1949.

The Honourable HENRY ANDERSON WINTER, Newfoundland Admiralty District—appointed May 9, 1949.

The Honourable SIR ALBERT JOSEPH WALSH, Newfoundland Admiralty District—appointed September 13, 1949.

His Honour VINCENT JOSEPH POTTIER, Nova Scotia Admiralty District—appointed February 8, 1950.

The Honourable ARTHUR IVES SMITH, Quebec Admiralty District—appointed June 16, 1950.

The Honourable ESTEN KENNETH WILLIAMS, Manitoba Admiralty District—appointed June 16, 1950.

The Honourable ROBERT STAFFORD FURLONG, Newfoundland Admiralty District—appointed October 8, 1959.

The Honourable DALTON COURTNEY WELLS, Ontario Admiralty District—appointed January 28, 1960.

DEPUTY JUDGES IN ADMIRALTY OF THE EXCHEQUER COURT OF CANADA

The Right Honourable JAMES L. LISLEY, Nova Scotia Admiralty District—appointed November 3, 1958.

The Honourable THOMAS GRANTHAM NORRIS, British Columbia Admiralty District—appointed November 26, 1959.

SURROGATE JUDGE IN ADMIRALTY OF THE EXCHEQUER COURT OF CANADA

ALFRED S. MARRIOTT, Q.C. Ontario Admiralty District—appointed February 21, 1952.

ATTORNEY-GENERAL OF CANADA:

The Honourable STUART S. GABSON
The Honourable EDMUND DAVIE FULTON

SOLICITOR GENERAL OF CANADA:

The Honourable W. ROSS MACDONALD
The Honourable LÉON BALCER

JUGES

DE LA

COUR DE L'ÉCHIQUIER DU CANADA

en fonction au cours de la période de publication de ces rapports:

PRÉSIDENT:

L'HONORABLE JOSEPH T. THORSON
(nommé le 6 octobre 1942)

JUGES PUÎNÉS:

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(nommé le 4 septembre 1946)

L'HONORABLE JOHN DOHERTY KEARNEY
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L'HONORABLE ALPHONSE FOURNIER
(nommé le 12 juin 1953)

L'HONORABLE JACQUES DUMOULIN
(nommé le 1^{er} décembre 1955)

L'HONORABLE ARTHUR LOUIS THURLOW
(nommé le 29 août 1956)

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L'ÉCHIQUIER DU CANADA

L'honorable FRED H. BARLOW, district d'amirauté d'Ontario—nommé le 18 octobre 1938.
L'honorable SIDNEY ALEXANDER SMITH, district d'amirauté de la Colombie-Britannique—
nommé le 2 janvier 1942.

L'honorable W. ARTHUR I. ANGLIN, district d'amirauté du Nouveau-Brunswick—nommé
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L'honorable HAROLD L. PALMER, district d'amirauté de l'Île du Prince-Édouard—nommé
le 3 août 1948.

L'honorable SIR BRIAN DUNFIELD, district d'amirauté de Terre-Neuve—nommé le 9 mai
1949.

L'honorable HENRY ANDERSON WINTER, district d'amirauté de Terre-Neuve—nommé le
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L'honorable SIR ALBERT JOSEPH WALSH, district d'amirauté de Terre-Neuve—nommé le
13 septembre 1949.

Son honneur VINCENT JOSEPH POTIER, district d'amirauté de la Nouvelle-Écosse—nommé
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L'honorable ARTHUR IVES SMITH, district d'amirauté de Québec—nommé le 16 juin 1950.

L'honorable ESTEN KENNETH WILLIAMS, district d'amirauté de Manitoba—nommé le
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L'honorable ROBERT STAFFORD FURLONG, district d'amirauté de Terre-Neuve—nommé le
8 octobre 1959.

L'honorable DALTON COURTNEY WELLS, district d'amirauté d'Ontario—nommé le 28
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JUGES ADJOINTS EN AMIRAUTÉ DE LA COUR DE L'ÉCHIQUIER DU CANADA

Le très honorable JAMES L. ILSLEY, district d'amirauté de la Nouvelle-Écosse—nommé
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nommé le 26 novembre 1959.

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L'honorable EDMUND DAVIE FULTON

SOLLICITEUR GÉNÉRAL DU CANADA:

L'honorable W. ROSS MACDONALD
L'honorable LÉON BALCER

The Honourable Fred H. Barlow, District Judge in Admiralty for the Ontario Admiralty District, retired during the year 1959.

The Honourable Sir Albert Joseph Walsh, District Judge in Admiralty for the Newfoundland Admiralty District, died during the year 1959.

The Honourable Sidney Alexander Smith, District Judge in Admiralty for the British Columbia Admiralty District, died during the year 1960.

L'honorable Fred H. Barlow, Juge de district d'amirauté d'Ontario, a cessé d'occuper sa charge au cours de l'année 1959.

L'honorable Sir Albert Joseph Walsh, Juge de district d'amirauté de Terre-Neuve, est décédé au cours de l'année 1959.

L'honorable Sidney Alexander Smith, Juge de district d'amirauté de la Colombie-Britannique, est décédé au cours de l'année 1960.

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CASES

DETERMINED BY THE

EXCHEQUER COURT OF CANADA

AT FIRST INSTANCE

AND

IN THE EXERCISE OF ITS APPELLATE
JURISDICTION

CAUSES

ADJUGÉES PAR

LA COUR DE L'ÉCHIQUIER DU CANADA

EN SA JURIDICTION DE COUR
DE PREMIÈRE INSTANCE

ET

EN SA JURIDICTION D'APPEL

BETWEEN :

THE MINISTER OF NATIONAL
REVENUE

APPELLANT;

1954
Nov. 22, 23

1956

Oct. 16

AND

JAMES A. TAYLORRESPONDENT.

Revenue—Income tax—The Income Tax Act, 1948, S.C. 1948, c. 52, ss. 3, 5, 127(1)(e)—Meaning of term “adventure or concern in the nature of trade”—Negative and positive guides for determining whether transaction an adventure in the nature of trade—Purchase and sale of 1,500 tons of lead a dealing in lead and an adventure in the nature of trade.

The respondent was the president and general manager of The Canada Metal Company which was engaged in the business of fabricating various products of non-ferrous metals including lead. It was a wholly owned subsidiary of the National Lead Company of New York which controlled its business policy and restricted its purchases of raw metals to a 30-day supply. Moreover, it had to buy its lead requirements from a Canadian supplier which held it to a quota. The result was that it lost considerable export business. In 1949 lead prices broke sharply and lead from foreign countries was available for the first time at the lower prices. The respondent requested permission from the parent company to allow his company to import foreign lead which meant buying it for future delivery. It was contrary to the parent company's policy to allow its subsidiary to deal in futures and the requested permission was refused. The respondent then requested and was given permission to purchase the lead himself and assume the risk involved. He felt that he could get the foreign lead and could not get adequate supplies in Canada. He had the idea that his company needed the lead and decided to buy it himself, sell it to the company and assume personally whatever risk was involved in the transaction. Accordingly, he purchased 1,500 tons of foreign lead through brokers and arranged for its sale to his company at the market price of the lead on its delivery to it. The respondent made a profit on the transaction of \$83,712.24 of which \$70,098.80 was included in his income tax assessment for 1949, that being the amount of the profits received by him in that year. The respondent appealed to the Income Tax Appeal Board which allowed his appeal and the Minister appealed from its decision to this Court.

Held: That the terms “trade” and “adventure or concern in the nature of trade” are not synonymous expressions and that the profit from a transaction may be income from a business within the meaning of section 3 of the Act, by reason of the definition of business in section 127(1)(e), even although the transaction did not constitute a trade, provided that it was an adventure or concern in the nature of trade.

2. That there could be a “scheme of profit-making” within the meaning of the *Californian Copper Syndicate* case, even if there were only one transaction.
3. That the inclusion of the term “adventure or concern in the nature of trade” in the definition of “business” in section 127(1)(e) of the Act has substantially enlarged the ambit of the kind of transactions the profits from which were subject to income tax.

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4. That, while it is not possible to lay down any single criterion for deciding whether a particular transaction was an adventure of trade, it is possible to state some propositions of a negative nature and also to lay down some positive guides.
5. That the singleness or isolation of a transaction cannot be a test of whether it was an adventure in the nature of trade, that while it might be a very important factor in determining whether it was a trading or business transaction, it has no place at all in determining whether it was an adventure in the nature of trade and that it is the nature of the transaction, not its singleness or isolation, that is to be considered.
6. That it is not essential to a transaction being an adventure in the nature of trade that an organization be set up to carry it into effect or that anything should be done to the subject matter of the transaction to make it saleable.
7. That the fact that a transaction is different in nature from any of the other activities of the taxpayer and that he has never entered upon a transaction of that kind before or since does not, of itself, take it out of the category of being an adventure in the nature of trade.
8. That a transaction may be an adventure in the nature of trade although the person entering upon it did so without any intention to sell its subject matter at a profit, for the intention to make a profit may be just as much the purpose of an investment transaction as of a trading one. The considerations prompting the transaction may be of such a business nature as to invest it with the character of an adventure in the nature of trade even without any intention of making a profit on the sale of the purchased commodity.
9. That the taxpayer's declaration that he entered upon the transaction without any intention of making a profit on the sale of the purchased property should be scrutinized with care.
10. That care must be taken in applying English income tax decisions to a Canadian case.
11. That if a person deals with the commodity purchased by him in the same way as a dealer in it would ordinarily do such a dealing is a trading adventure.
12. That the nature and quantity of the subject matter of the transaction may be such as to exclude the possibility that its sale was the realization of an investment or otherwise of a capital nature, or that it could have been disposed of otherwise than as a trade transaction and may stamp the transaction as a trading venture.
13. That the respondent's purchase and sale of the 1,500 tons of lead was a dealing in lead and an adventure in the nature of trade within the meaning of section 127(1)(e) of the Act and that his profit from it was profit from a business within the meaning of section 3.
14. That the appeal must be allowed.

APPEAL from decision of the Income Tax Appeal Board.

The appeal was heard before the President of the Court at Toronto.

W. R. Jackett, Q.C., and *K. E. Eaton* for appellant.

J. R. Reycraft for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

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THE PRESIDENT now (October 16, 1956) delivered the following judgment:

This is an appeal from the decision of the Income Tax Appeal Board¹, dated December 16, 1953, allowing the respondent's appeal against his income tax assessment for 1949, which included in his taxable income the amount of the profit made by him on the purchase and sale of 1500 tons of lead in that year.

The issue in the appeal is whether such profit was income from "an adventure or concern in the nature of trade" and, therefore, income from a "business" within the meaning of section 3 of *The Income Tax Act*, Statutes of Canada, 1948, Chapter 52, as defined by section 127(1)(e), or, alternatively, whether it was income from an office or employment within the meaning of section 5. Section 3 provides:

3. The income of a taxpayer for a taxation year for the purposes of this Part is his income for the year from all sources inside or outside Canada and, without restricting the generality of the foregoing, includes income for the year from all

- (a) businesses,
- (b) property, and
- (c) offices and employments.

Section 127 (1)(e) defines "business" as follows:

127. (1) In this Act,

- (e) "business" includes a profession, calling, trade, manufacture or undertaking of any kind whatsoever and includes an adventure or concern in the nature of trade but does not include an office or employment;

And section 5 provides in part:

5. Income for a taxation year from an office or employment is the salary, wages and other remuneration, including gratuities, received by the taxpayer in the year plus

- (a) the value of benefits (.....) received or enjoyed by him in the year in respect of, in the course of or by virtue of the office or the employment,.....

The case is of considerable importance by reason of the fact that it is the first one in which the meaning of the term "adventure or concern in the nature of trade" falls to be considered by this Court.

¹ (1953) 9 Tax A.B.C. 358.

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While the bare facts are not in dispute it is desirable to set out the circumstances under which the respondent purchased and sold the lead in question and to review as precisely as possible the considerations that prompted the transaction so that its true nature may be determined.

I shall first summarize the evidence bearing on the circumstances under which the respondent entered into the transaction and its immediate result. The respondent is the president and general manager of The Canada Metal Company Limited, hereinafter called the Company. He has been associated with it for over 43 years and has been its general manager for 18. The Company has its head office at Toronto but has branches or subsidiaries in other Canadian cities including Montreal. Its business is the fabrication of various products of non-ferrous metals including lead. It is not in the business of buying and selling such metals, its income coming from the sale of its fabricated products, but it does on occasion let customers, such as plumbers, have small quantities of lead as a matter of accommodation to them.

The Company is a wholly owned subsidiary of the National Lead Company of New York, hereinafter called the parent Company, a New Jersey corporation with its head office at New York, and its business policy is strictly controlled by the parent Company. For example, it was restricted in its purchases of raw metals to a 30-day supply always on hand with the understanding that as they were used in the fabrication of its products equivalent amounts should be purchased to replace them. In this case we are concerned only with lead. The Company purchased all its lead requirements from Consolidated Mining and Smelting Company Limited, hereinafter called the Canadian supplier, the only producer of lead in Canada. During the war years the Company had been under a quota of between 1400 and 1500 tons of lead per month, fixed by the Metals Control Board at Ottawa, but after its controls were relaxed the Canadian supplier continued to set a quota for the Company and other Canadian concerns similar to it. It would have been possible to buy lead from foreign producers but this would have involved the payment of duty and immediate delivery could not be obtained. The Company lost considerable export business through not being able to obtain the necessary lead from the Canadian supplier. Before it could accept an order involving export of its prod-

ucts it had to ascertain from the Canadian supplier whether the necessary lead would be supplied to it. Evidence was given of a specific difficulty which the Company had experienced in connection with an export order which it had accepted on the assurance that it would get the necessary lead from the Canadian supplier and a loss which it had sustained through the failure of the Canadian supplier to deliver it. Further reference to this difficulty and its effect on the respondent will be made later.

There is another set of facts to which reference should be made. The duty on imported lead varied from $\frac{3}{4}$ cent per pound from Commonwealth countries to 1 cent from foreign ones but if lead was imported and the importer exported the product fabricated from it he was entitled to a 99 per cent drawback of the duty paid. The price which the Company had to pay for lead was fixed by the Canadian supplier and was based on the London market, and later the New York one, with the result that it could not compete in the American market unless it got a benefit equal to the drawback to which it would have been entitled if it had imported the lead, and the Canadian supplier did not give the Company any such benefit in the price charged to it.

In 1949 there were important developments. Lead prices, which had risen to as high as $20\frac{3}{4}$ cents per pound from a previous low of 5 cents, broke sharply to as low as $11\frac{1}{2}$ cents. Lead from foreign countries was available for the first time at these prices. Coupled with these facts was the fact that the Company was still held to a short supply by the Canadian supplier and no allowance was made to it for a benefit by way of a reduction in price equal to the drawback to which it would have been entitled if it had imported foreign lead for the purpose of its export trade.

Under these circumstances, the respondent went to New York in the latter part of May, 1949, and consulted Mr. W. P. Carrol, the vice-president of the parent Company. He requested permission to the Company to import foreign lead. This meant buying it for future delivery in about three months. It was contrary to the policy which the parent Company had set for the Company to allow it to deal in futures and permission to the Company to import the lead for future delivery was refused. The respondent then asked Mr. Carrol whether it would be in order if he

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purchased the lead himself and was told to go ahead. The risk of importing lead for future delivery was contrary to the business policy set for the Company but if the respondent wished to assume the risk himself it was "all right". The respondent felt that he could get the foreign lead and could not get adequate supplies in Canada and had the idea that the Company needed the lead and decided to buy it himself, sell it to the Company and assume personally whatever risk was involved in the transaction. Mr. Carrol then introduced him to Phillip Brothers, a firm of brokers in New York, and he arranged with them to buy 1500 tons of virgin lead at 11½ cents per pound. He had no means for handling such a transaction himself and arranged with Phillip Brothers that the purchase should be made for him by International Iron and Metal Company of Hamilton, which he used as his broker. These arrangements were made in June some time before June 20, 1949. When he had made the arrangements for the purchase of the foreign lead he made the arrangements with the Company's purchasing department for its sale to the Company on its arrival at the market price of lead on the date of its arrival. The sale to the Company was also through International Iron and Metal Company. Phillip Brothers bought the lead from Jugoslavia and on August 17, 1949, Theodore B. Smith Co. Inc., a firm of customs brokers in New York, sent International Iron and Metal Company two invoices for the lead, one for 500 tons to go to the Company at Montreal and one for 1000 tons to go to it at Toronto, the two invoices amounting to a total of \$350,238.86, with the information that the lead was expected to arrive in New York on August 23, 1949, per *S.S. Corica*. On August 24, 1949, the Company paid International Iron and Metal Company the sum of \$350,000 and on September 22, 1949, the further sum of \$11,330.53. The respondent did not himself put up any money for the purchase of the lead.

The lead was sold to the Company for 15½ cents per pound, which meant 14⅞ to the respondent after the payment of a commission of \$5 per ton to International Iron and Metal Company, and the respondent made a profit on the transaction of \$83,712.24. In assessing the respondent for 1949 the Minister added this amount to the amount of taxable income reported by him in his return. The respondent received all this profit in 1949 except the sum of

\$13,613.44 which he did not receive until June 23, 1950. Consequently, if the respondent is assessable for the profit made on the transaction the amount which should be added to the amount of taxable income reported by him is \$70,098.80 instead of \$83,712.24.

In addition to this profit the Company reaped a benefit of approximately \$30,000 by way of drawback of duty on the export of the products fabricated from the foreign lead purchased by it and the respondent received a benefit from this indirectly in that his remuneration from the Company was by way of salary and a percentage of profits.

This outline of the circumstances under which the respondent purchased and sold the lead is based largely on his evidence on his examination in chief but it does not tell the whole story. The considerations that led him to the transaction were fully brought out in the competent cross-examination to which he was subjected by Mr. Eaton of counsel for the appellant. It is essential to a proper determination of the true nature of the transaction that these considerations should be reviewed as precisely as possible.

It is clear that the respondent purchased the lead with the intention of selling it to the Company. He did not intend to do anything else with it. Certainly, he did not intend to sell it to anyone else. Indeed, he said specifically on his cross-examination that he purchased it for the Company. He did not, of course, mean that he did so as an agent of the Company. What he meant was that he had the Company's business in mind and purchased it for its benefit. His purpose, as he put it, was to alleviate the short supply of lead to which it had been held by the Canadian supplier and so enable it to fulfil the business that was available to it. It was also part of his purpose to enable it to get the benefit of the drawback of duty to which it would be entitled on the export of the products fabricated from the imported lead and so enable it to compete in the export field.

It is also clear that he saw the opportunity of accomplishing these purposes when lead prices broke in 1949 and it became possible for the first time to import lead from foreign countries at the same price as that charged to the Company by the Canadian supplier.

And there is no doubt that he was spurred to the transaction by his special experience with the Canadian supplier.

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I outline the facts of this experience according to his version of them. In about 1947 the Company had an order for lead products from abroad which required 2,000 tons of lead for their fabrication. The Company could not accept this order without first arranging for the supply of the necessary lead from the Canadian supplier. The respondent then arranged orally with an officer of the Canadian supplier for its supply at a premium of \$40 per ton over the price normally charged to the Company. The customer for the products was willing to pay this premium and the order for them was accepted. Then, for reasons that were not fully explained, the Canadian supplier delivered only 500 tons out of the 2000 tons promised and declined to deliver the balance which, as the respondent put it, left the Company 1500 tons short. On his examination for discovery, confirmed on his cross-examination, he admitted that it was this shortage that prompted his transaction. There is no doubt that it still bothered him and that it was an impelling factor. While the respondent had caused litigation to be instituted against the Canadian supplier and it was settled out of court, the Company had suffered a loss on the transaction and the experience rankled in his mind. He said that he did not do himself any good in having the Company make a deal with the Canadian supplier on which it had reneged because the arrangements which he had made orally had not been confirmed and he had been criticized for not having had them reduced to writing. And he said that he tried to make up for his mistake in relying upon a verbal arrangement by buying the foreign lead and supplying the Company with it. There is support for this statement in the fact that his purchase and sale of lead was in the amount of 1,500 tons, the exact amount by which the Canadian supplier had fallen short of the promise to deliver made orally by one its officers.

It is also clear that, apart from this experience, the respondent was resentful against the Canadian supplier for two other reasons. One was that it exported lead abroad and kept the Company and other concerns like it in short supply, and the other, a related one, that it based its prices for lead on foreign prices including duty without giving the Company and others the benefit of a reduction in price equal to the drawback to which it and they would have been entitled if they had imported foreign lead for their export

business, thus preventing them from being able to compete in foreign markets.

When he went to New York to see Mr. Carrol it was for the purpose of discussing with him the Canadian supplier situation and trying to find a solution of the Company's difficulty with it. He pointed out that the difficulty could be overcome by importing foreign lead in view of the fact that lead prices had broken and it was now possible for the first time to purchase foreign lead at a price equal to that charged by the Canadian supplier. It was only when permission to the Company to import the lead was refused because of the parent Company's fixed policy that it should not deal in futures that he decided to import the lead himself and sell it to the Company at the market price prevailing on its arrival.

There were several considerations that impelled him to this decision. On his direct examination he stated in reply to his counsel's question of why he entered into the transaction that he had done so solely to relieve a shortage of the Company in trying to obtain lead supplies. But this is not a fully correct statement. In the break in lead prices that had occurred he saw, not only an immediate advantage to the Company, but also great possibilities for its future business. It was the first opportunity that anyone in Canada had to bring in foreign lead to alleviate the shortage from which everybody in the lead business was suffering but they did not see fit to gamble on that because they felt that the market would go lower but he felt that if he could obtain business for the Company he would be willing to take a chance in the situation that existed for the first time since 1939 that it was possible to import foreign lead.

Thus, while he emphasized on his direct examination that his purpose was to alleviate the shortage in lead supply from which the Company had suffered he had a further and larger purpose. He felt that he had to do something to overcome the Company's difficulty with the Canadian supplier that would help it in the future. As he put it, he figured that probably the shock of somebody importing foreign lead would bring the Canadian supplier to its senses and a better realization of the need of fair treatment to the Company. The alleviation of the Company's immediate shortage was only part of his plan. He was looking to the

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future success of the Company not only for its sake but also for the resultant benefit to himself.

What was running through his mind is indicated by a characteristic statement on his cross-examination:

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I felt that I would wind up things—what I was looking to, I mean, is the success of the company—how long are we going to continue on having to be dictated to by a producer in this country who had plenty of supplies that they would sell outside of Canada and not supply to the people in the country—that is the basis of the whole thing, I mean probably it is not exactly as I put it but from the point of view of the future of this business, it is not today or tomorrow—it is in a few years to come—and the growth of this country here after years of building up and one thing and another. The benefit that would be derived by me probably personally—by putting up a fight with Consolidated Mining and Smelting and showing that I did not have to depend on them entirely, would bring about something—just as has happened.

What he meant by the last part of this statement is that the shortage in lead supply to which the Canadian supplier had held the Company has since been eased and the Canadian supplier in its price to the Company now gives it a benefit equal to the drawback of duty to which it would be entitled if it imported the lead for its exported fabricated products. Thus, the respondent's venture has "paid off" not only for the Company but for the respondent as well.

It was argued that the respondent did not enter into the transaction with the intention of making a profit for himself on the sale of the lead to the Company. But, even if that be conceded, it is manifest that he had a profit making intention, if not immediately, then certainly for the future, both for the Company and for himself.

While he said that he could not tell whether he would make a profit or a loss on the transaction it is a fair inference from the evidence as a whole that he did not consider that the risk of loss was substantial. While he stated on his examination in chief that he did not keep track of lead prices from day to day the break in lead prices in 1949 made a great impression on him. In a letter to the Department of National Revenue, dated November 5, 1951, he stated that the decline in lead prices within three months had been from 20¾ cents per pound to 11¾ cents and that never during his experience in the business had any price decline been so severe. That he did not, under these circumstances, consider the risk of loss substantial is shown by his admission on his cross-examination that he thought that

after such a break as had occurred the market usually steadied down.

But even if the risk of loss had been great the respondent would have taken it. In his mind, the business advantages that would accrue to the Company from the achievement of his objectives and the benefit of such success to himself, since his remuneration was based on salary plus a percentage of profit, far outweighed any risk of loss to himself from the transaction. On his cross-examination he stated that even if the transaction had cost him \$60,000 it would have been worth it to him. Indeed, it has worked out well in his returns from the Company in its recognition of his 40 years of work for it in an increase of salary with its resultant benefit in pension rights on his retirement.

That the respondent was well pleased with the result of his venture is shown by his statement, on his cross-examination, that if a similar situation arose again and he could not get approval of action on the part of the Company he would repeat his transaction.

As already stated, the prime issue in this appeal is whether the respondent's purchase and sale of 1500 tons of lead was an adventure or concern in the nature of trade. If it was, his profit from it was taxable income from a business within the meaning of section 3 of *The Income Tax Act* of 1948, as defined by section 127(1)(e). The expression "adventure or concern in the nature of trade" appeared for the first time in a Canadian income tax act in section 127(1)(e) of the 1948 Act. It was, no doubt, taken from the *Income Tax Act, 1918* of the United Kingdom. In that Act under Case I of Schedule D tax was chargeable in respect of any trade . . . and section 237 defined trade as including "every trade, manufacture, adventure or concern in the nature of trade". Prior to its inclusion in the definition of trade by section 237 of the *Income Tax Act, 1918*, the expression appeared in the *Income Tax Act* of 1842. In that Act provision was made in the First Case under Schedule (d) for the charging of duties in respect of any "Trade, Manufacture, Adventure, or Concern in the nature of Trade, . . ." Indeed, the expression goes back to the Act of 1803.

It is, I think, plain from the wording of the Canadian Act, quite apart from any judicial decisions, that the terms "trade" and "adventure or concern in the nature of trade" are not synonymous expressions and it follows that the

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profit from a transaction may be income from a business within the meaning of section 3 of the Act, by reason of the definition of business in section 127(1)(e), even although the transaction did not constitute a trade, provided that it was an adventure or concern in the nature of trade.

In view of the dearth of Canadian decisions on what constitutes an adventure or concern in the nature of trade resort may be had to Scottish and English decisions on the corresponding United Kingdom enactment, but in applying them it is important to keep in mind that in the United Kingdom the jurisdiction of the courts in appeals against the findings of the Commissioners is limited to questions of law.

Strangely enough, the meaning of the expression "adventure in the nature of trade", although it had been in the United Kingdom Act from as early as 1803, was not discussed in any case to which my attention has been directed prior to the decision of the Scottish Court of Session in *The Commissioners of Inland Revenue v. Livingston et al*¹, to which I shall refer later, although there is a reference to it in *Californian Copper Syndicate Limited v. Harris*² in the finding of the Commissioners that the property in question in the case purchased by the Company was acquired with the object of being resold, and that by the purchase and resales of their property the Company carried on an adventure or concern in the nature of trade in the meaning of the First Case of Schedule D of the *Income Tax Act 1842*.

The first definition of "trade" in the United Kingdom cases is that of Lord Davey in *Grainger and Son v. Gough*³. There he said, in his speech in the House of Lords:

Trade in its largest sense is the business of selling, with a view to profit, goods which the trader has either manufactured or himself purchased.

This definition is only partially helpful. It indicates that "trade" is included in "business" which latter term is of wider import than that of trade in that it embraces any gainful activity, but it does not define the term "trader".

An advance was made by the Lord Justice Clerk (Macdonald) of the Court of Exchequer (Scotland) in the

¹ (1926) 11 T.C. 538.

² (1904) 5 T.C. 159 at 165.

³ (1896) 3 T.C. 462 at 474.

famous case of *Californian Copper Syndicate Limited v. Harris*¹. In that case the Company had been formed for the purpose, *inter alia*, of acquiring and reselling mining property and had acquired and worked several mining properties in California and then sold them to a second Company receiving payment in fully paid up shares of the latter Company. The Company was assessed in respect of the profit made on the transaction and appealed against the assessment so made but the Commissioners held, as I have already indicated, that the Company had carried on an adventure or concern in the nature of trade in the meaning of the First Case of Schedule D of the *Income Tax Act* of 1842 and that the profits arising from the transaction whether received in cash or shares of another company were assessable to income tax. The Court of Session as the Court of Exchequer in Scotland agreed that the determination of the Commissioners was right. Its decision is of particular importance because of the objective test which the Lord Justice Clerk laid down for determining whether the gain from a transaction was a capital one or income subject to tax. At page 165, he said:

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It is quite a well settled principle in dealing with questions of assessment of Income Tax, that where the owner of an ordinary investment chooses to realize it, and obtains a greater price for it than he originally acquired it at, the enhanced price is not profit in the sense of Schedule D of the Income Tax Act of 1842 assessable to Income Tax. But it is equally well established that enhanced values obtained from realisation or conversion of securities may be so assessable, where what is done is not merely a realisation or change of investment, but an act done in what is truly the carrying on, or carrying out, of a business. The simplest case is that of a person or association of persons buying and selling lands or securities speculatively, in order to make gain, dealing in such investments as a business, and therefore seeking to make profits. There are many companies which in their very inception are formed for such a purpose, and in these cases it is not doubtful that, where they make a gain by a realisation, the gain they make is liable to be assessed for Income Tax.

And then there follows the famous statement of the test to be applied:

What is the line which separates the two classes of cases may be difficult to define, and each case must be considered according to its facts; the question to be determined being—Is the sum of gain that has been made a mere enhancement of value by realising a security, or is it a gain made in an operation of business in carrying out a scheme for profit-making?

¹ (1904) 5 T.C. 159.

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The Lord Justice Clerk then proceeded to a review of the evidence and said, at page 166:

I feel compelled to hold that this Company was in its inception a Company endeavouring to make a profit by a trade or business, and that the profitable sale of its property was not truly a substitution of one form of investment for another. It is manifest that it never did intend to work this mineral field with the capital at its disposal. Such a thing was quite impossible. Its purpose was to exploit the field, and obtain gain by inducing others to take it up on such terms as would bring substantial gain to themselves. This was that the turning of investment to account was not to be merely incidental but was, as the Lord President put it in the case of the Scottish Investment Company, the essential feature of the business, speculation being among the appointed means of the Company's gains.

And concluded that in these circumstances the finding of the Commissioners was right. Lord Young and Lord Trayner agreed.

The test laid down by the Lord Justice Clerk in the *Californian Copper Syndicate* case (*supra*) has been approved in a great many cases: *vide*, for example, by Lord Dunedin, speaking for the Judicial Committee of the Privy Council, in *Commissioner of Taxes v. Melbourne Trust, Limited*¹; by Lord Buckmaster in the House of Lords in *Ducker v. Rees Roturbo Development Syndicate, Limited* and *Commissioners of Inland Revenue v. Rees Roturbo Development Syndicate Limited*²; by Duff J., as he then was, speaking for the Supreme Court of Canada, in *Anderson Logging Co. v. The King*³, which was confirmed by the Judicial Committee of the Privy Council⁴, and, more recently, by this Court and the Supreme Court of Canada, per Kerwin J., as he then was, in *Atlantic Sugar Refineries Limited v. Minister of National Revenue*⁵.

The decision is subject to certain comments. In the first place, I think it is clear that when the Lord Justice Clerk used the expression "scheme of profit-making" he did not imply that the word "scheme" meant a multiplicity of transactions. There could be a scheme of profit making even if there were only one transaction. The difficulty involved in the term "scheme of profit making" came before the Court inferentially, if not directly, in *T. Beynon and Co., Limited v. Ogg*⁶. There a company carrying on business as coal merchants, ship and insurance brokers and as sole selling

¹ [1914] A.C. 1001 at 1010.⁴ [1926] A.C. 140.² [1928] A.C. 132 at 140.⁵ [1949] Ex. C.R. 622;³ [1925] S.C.R. 45 at 48.

[1949] S.C.R. 706.

⁶ (1918) 7 T.C. 125.

agents for various colliery companies, in which latter capacity it purchased waggons for its clients, made a purchase of waggons on its own account as a speculation and subsequently sold them at a profit. It contended that since the transaction was an isolated one the profit was in the nature of a capital profit on the sale of an investment and should be excluded in computing its liability to income tax. It was held, however, that it was made in the operation of the Company's business and properly included in the computation of its profits therefrom. Sankey J. put the matter thus, at page 132:

The only question one has to determine is which side the line this transaction falls on. Is it . . . in the nature of capital profit on the sale of an investment? Or is it . . . a profit made in the operation of the Appellant Company's business?

As I see it, the test thus put is to the same effect and essentially the same as that laid down by the Lord Justice Clerk in the *Californian Copper Syndicate* case (*supra*). Certainly, it was so regarded by Duff J., as he then was, in the *Anderson Logging Co.* case (*supra*).

The case is also of importance for the stress which the Lord Justice Clerk put on the element of speculation as a determining factor in the decision that the transaction was not the realisation of an investment and its transfer into another form but the gaining of profit by the sale of the property and thus a transaction that was characteristic of what a trader would do. This stress on the speculative element is of particular importance when it is coupled with the finding that the sale of a property, which by itself is productive of income and might be regarded as an investment, can be a trade in the property rather than a realisation of an investment.

Finally, I must confess that I find it strange that although the Commissioners had denied the Company's appeal against its assessment on the ground that the profits made by it were from a transaction of purchase and sale that was an adventure or concern in the nature of trade and the court was unanimous in the opinion that they were right in their finding, there is not a word in the judgments bearing on what is an adventure or concern in the nature of trade as distinct from what is a trade. But it is obvious, it seems to me, that if the Court considered the transaction in question a trading transaction, as it clearly did, it must,

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a fortiori, be considered as an adventure or concern in the nature of trade, as the Commissioners had found it to be.

I now come to the decision in *The Commissioners of Inland Revenue v. Livingston et al*¹ in which an attempt was made to define the expression "adventure in the nature of trade". There the facts were that three persons, a ship repairer, a blacksmith and a fish salesmen's employee purchased as a joint venture a cargo vessel with a view to converting it into a steam-drifter and selling it. They were not connected in business and had never previously bought a ship. Extensive repairs and alterations to the ship were carried out by the orders of the purchasers of the ship, two of them being employed on it in their ordinary capacity and at the ordinary trade rates, and on December 31, 1924, the owners sold the vessel at a profit. They were assessed to income tax on the profit so made and appealed to the Commissioners who allowed the appeal on the ground that the profit realised in the transaction in question was not made in the operation of business ordinarily carried on by the purchasers. Thereupon the Crown appealed to the Court of Session as the Court of Exchequer in Scotland and it unanimously reversed the decision of the Commissioners and held the owners of the ship assessable to income tax on the profit made by them.

While all the judges agreed that the finding of the Commissioners should be reversed the case loses much of the value that it might otherwise have by reason of the divergence in the four reasons for judgment. In my opinion, the Lord President (Clyde) made the most useful contribution to the jurisprudence. At page 542, he said:

I think the profits of an isolated venture, such as that in which the Respondents engaged, may be taxable under Schedule D provided the venture is "in the nature of trade". I say, "may be", because in my view regard must be had to the character and circumstances of the particular venture. If the venture was one consisting simply in an isolated purchase of some article against an expected rise in price and a subsequent sale of it it might be impossible to say that the venture was "in the nature of trade"; because the only trade in the nature of which it could participate would be the trade of a dealer in such articles, and a single transaction falls as far short of constituting a dealer's trade, as the appearance of a single swallow does of making a summer. The trade of a dealer necessarily consists of a course of dealing, either actually engaged in or at any rate contemplated and intended to continue. But this principle is difficult to apply to ventures of a more complex character such as that with which the present case is concerned.

¹ (1926) 11 T.C. 538.

And then Lord Clyde put the test of whether a venture was in the nature of trade as follows:

I think the test, which must be used to determine whether a venture such as we are now considering is, or is not, "in the nature of trade", is whether the operations involved in it are of the same kind, and carried on in the same way, as those which are characteristic of ordinary trading in the line of business in which the venture was made. If they are, I do not see why the venture should not be regarded as "in the nature of trade", merely because it was a single venture which took only three months to complete.

And he went on to say that the operations were the same as those which characterised the trade of converting and refitting second-hand articles for sale and that the transaction was "in the nature of trade". Lord Sands took a different view. In his view it was the operation done on the ship that made the transaction a trading one. At page 543 he said:

But I am disposed to think that it would introduce the element of carrying on a trade if the purchaser were, by himself or his own employees or by a contractor, to carry through a manufacturing process which changed the character of the article.

In Lord Blackburn's opinion the case turned on the fact that two of the three purchasers worked on the ship themselves and were thus exercising their own trades.

A great step towards clarification of the meaning of the expression under review was taken by the Court of Session in *Rutledge v. The Commissioners of Inland Revenue*.¹ There the appellant, who was a money lender and also interested in a cinema company and other businesses, being in Berlin on business connected with the cinema company, purchased very cheaply a large quantity of toilet paper from a bankrupt German firm and within a short time after his return to London sold the whole consignment to one person at a considerable profit. On being assessed on this profit he appealed to the Commissioners who found that the profit made was liable to assessment as being profit in the nature of trade and the Court unanimously dismissed the appeal from their finding. The judgment of the Lord President (Clyde) is illuminating. After stating that the question in the case was whether the profits were or were not profits of an "adventure . . . in the nature of trade"

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¹ (1929) 14 T.C. 490.

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within the meaning of section 237 of the *Income Tax Act, 1918* and expressing the opinion that the transaction was certainly an adventure went on to say, at page 496:

The question remains whether the adventure was one "in the nature of trade". The appellant's contention is that it could not be such, because it is essential to the idea of trade that there should be a continuous series of trading operations; and an observation made in the course of my opinion in *Inland Revenue v. Livingston, 1927 S.C. 251*, at p. 255, was founded on, according to which "a single transaction falls as far short of constituting a dealer's trade, as the appearance of a single swallow does of making a summer. The trade of a dealer necessarily consists of a course of dealing, either actually engaged in or at any rate contemplated and intended to continue." But the question here is not whether the appellant's isolated speculation in toilet paper was a trade, but whether it was an "adventure . . . in the nature of trade"; and in the opinion referred to I said that, in my opinion, "the profits of an isolated venture . . . may be taxable under Schedule D provided the venture is 'in the nature of trade'". I see no reason to alter that opinion. It is no doubt true that the question whether a particular adventure is "in the nature of trade" or not must depend on its character and circumstances, but if—as in the present case—the purchase is made for no other purpose except that of re-sale at a profit, there seems little difficulty in arriving at the conclusion that the deal was "in the nature of trade", though it may be wholly insufficient to constitute by itself a trade.

Then the Lord President put his conclusion clearly, at page 497:

it seems to me to be quite plain (1) that the Appellant, in buying the large stock of toilet paper, entered upon a commercial adventure or speculation; (2) that this adventure or speculation was carried through in exactly the same way as any regular trader or dealer would carry through any of the adventures or speculations in which it is his regular business to engage; and therefore (3) that the purchase and re-sale of the toilet paper was an "adventure . . . in the nature of trade" within the meaning of the *Income Tax Act, 1918*.

Lord Sands agreed but put his opinion somewhat differently, stressing the nature and size of the subject matter. At page 497, he said:

The nature and quantity of the subject dealt with exclude the suggestion that it could have been disposed of otherwise than as a trade transaction. Neither the purchaser nor any purchaser from him was likely to require such a quantity for his private use. Accordingly, it appears to me quite a reasonable view for the Commissioners to have taken that this transaction was in the nature of trade. From beginning to end the intention was simply to buy and to re-sell . . . I do not think that we can regard what was done here as other than an "adventure . . . in the nature of trade" within the meaning of the Act.

Lord Blackburn and Lord Morison concurred.

And in *The Balgownie Land Trust, Ltd. v. The Commissioners of Inland Revenue*¹ Lord President Clyde, speaking of the definition of trade in section 237 of the *Income Tax Act, 1918*, said:

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that definition makes it plain that even the profit of an isolated transaction—if it constitutes an adventure in the nature of trade—may be brought within Case I of Schedule D of the *Income Tax Act* A single plunge may be enough provided it is shown to the satisfaction of the Court that the plunge is made in the waters of trade;

The next case in order of time was *Leeming v. Jones*² but I shall defer comment on it until later.

The *Rutledge* case (*supra*) was followed in *Lindsay et al v. The Commissioners of Inland Revenue*³ and later in *The Commissioners of Inland Revenue v. Fraser*⁴. There the respondent, a woodcutter, bought through an agent for resale a large quantity of whisky which he sold at a large profit. The purchases and sales were made in three lots. This was his only dealing in whisky. He had no special knowledge of the whisky trade and did not take delivery of the whisky or have it blended or advertised. The purchase and the sales were made through an agent. On being assessed in respect of the profit on the transaction he appealed to the Commissioners who found that an adventure in the nature of trade had not been carried on, that merely an investment had been made and realised and that it was not assessable to income tax. Their finding was unanimously reversed by the Court of Session. The Judgment of the Lord President (Normand) is clear cut. In the first place, he clearly realised the distinction between a trade and an adventure in the nature of trade. At page 502, he said:

We must remind ourselves that we are not to decide whether the Respondent was carrying on a trade, but whether the transaction was an adventure in the nature of trade It would be extremely difficult to hold that a single transaction amounted to a trade but it may be much less difficult to hold that a single transaction is an adventure in the nature of trade.

Lord Normand then went on to discuss what criterion the Court should apply in determining whether a transaction

¹ (1929) 14 T.C. 684 at 691.

³ (1932) 18 T.C. 43.

² [1930] 1 K.B. 299; [1930] A.C. 415.

⁴ (1942) 24 T.C. 498.

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was an adventure in the nature of trade and whether the transaction under review was an adventure in the nature of trade. I quote his opinion, at page 502:

There was much discussion as to the criterion which the Court should apply. I doubt if it would be possible to formulate a single criterion. I said in a case which we decided only yesterday that one important factor may be the person who enters into the transaction . . . It is in general more easy to hold that a single transaction entered into by an individual in the line of his own trade (although not part and parcel of his ordinary business) is an adventure in the nature of trade than to hold that a transaction entered into by an individual outside the line of his own trade or occupation is an adventure in the nature of trade. But what is a good deal more important is the nature of the transaction with reference to the commodity dealt in. The individual who enters into a purchase of an article or commodity may have in view the resale of it at a profit, and yet it may be that that is not the only purpose for which he purchased the article or the commodity, nor the only purpose to which he might turn it if favourable opportunity of sale does not occur. In some cases the purchase of a picture has been given as an illustration. An amateur may purchase a picture with a view to its resale at a profit, and yet he may recognise at the time or afterwards that the possession of the picture will give him aesthetic enjoyment if he is unable ultimately, or at his chosen time, to realise it at a profit. A man may purchase stocks and shares with a view to selling them at an early date at a profit, but, if he does so, he is purchasing something which is itself an investment, a potential source of revenue to him while he holds it. A man may purchase land with a view to realising it at a profit, but it also may yield him an income while he continues to hold it. If he continues to hold it, there may be also a certain pride of possession. But the purchaser of a large quantity of a commodity like whisky, greatly in excess of what could be used by himself, his family and friends, a commodity which yields no pride of possession, which cannot be turned to account except by a process of realisation, I can scarcely consider to be other than an adventurer in a transaction in the nature of a trade; and I can find no single fact among those stated by the Commissioners which in any way traverses that view. In my opinion the fact that the transaction was not in the way of the business (whatever it was) of the Respondent in no way alters the character which almost necessarily belongs to a transaction like this. Most important of all, the actual dealings of the Respondent with the whisky were exactly of the kind that take place in ordinary trade.

I stress Lord Normand's opinion in the last sentence of his cited remarks. Lord Normand then cited with approval the statement of the Lord Justice Clerk in the *Californian Copper Syndicate case (supra)* and made the significant remark, at page 503:

Now, if that is true of lands it is *a fortiori* true of the purchase and sale of a commodity like whisky in bond which, in the hands of a purchaser, has no meaning except as an incursion into the sphere of trading for profit.

And Lord Normand was unable to distinguish the case from the *Rutledge case (supra)*.

Lord Moncrieff, in his reasons for judgment, went even further. At page 505, he said:

When a man deals with a trading commodity such as whisky in bulk in bond, which he has acquired merely for the purpose of resale and proceeds to sell, and there are no further material circumstances in the case, he engages in my view in trade, and in trade only, and not in the investment of capital funds.

I next refer to certain expressions of opinion in *Commissioners of Inland Revenue v. Reinhold*¹. There Lord Carmont said, at page 392:

Certain transactions shew inherently that they are not investments but incursions into the realm of trade or adventures of that nature. In my opinion, it is because of the character of such transactions that it can be said with additional definiteness that certain profits are income from trade and not capital accretion of an investment, the purchase and sale of, for instance, whisky, as in *Fraser's* case, 1942 S.C. 493, was a trading venture and so too in regard to toilet paper: *Rutledge*, 1929 S.C. 379. This means that, although in certain cases it is important to know whether a venture is isolated or not, that information is superfluous in many cases where the commodity itself stamps the transaction as a trading venture, and the profits and gains are plainly income liable to tax.

Finally, there is the important decision of the House of Lords in *Edwards v. Bairstow*². In that case it was sought to charge the respondents with income tax on the profit arising from the purchase and sale of certain spinning plant acquired and sold during the period 1946-1948, but the Commissioners discharged the assessments on the determination that the transaction from which the profit arose was not an adventure in the nature of trade. Wynn Parry J. and the Court of Appeal upheld the finding of the Commissioners on the ground that the determination was purely a question of fact and that it was not open to the court to interfere with it. But the House of Lords unanimously reversed the decision and held that the transaction was an adventure in the nature of trade.

I need not consider the discussion whether the determination of the Commissioners was a question of fact or a question of law or a question of mixed law and fact. That question is of the utmost importance under the United Kingdom system but in Canada there is no similar limitation of jurisdiction and our Court is not concerned with it.

¹ (1953) 34 T.C. 389.

² [1955] 3 All E.R. 48.

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Lord Radcliffe said, at page 58:

The profit from the set of operations that comprised the purchase and sales of the spinning plant was the profit of an adventure in the nature of trade. What other word is apt to describe the operations? Here are two gentlemen who put their money or the money of one of them into buying a lot of machines. They have no intention of using it as machinery, so they do not buy it to hold as an income-producing asset. They do not buy it to consume or for the pleasure of enjoyment. On the contrary, they have no intention of holding their purchase at all. They are planning to sell the machinery even before they have bought it. And, in due course, they do sell it, in five separate lots, as events turned out. And, as they hoped and expected, they make a net profit on the deal, after charging all expenses such as repairs and replacements, commissions, wages, travelling and entertainment and incidentals, which do, in fact, represent the cost of organizing the venture and carrying it through.

This seems to me, inescapably, a commercial deal in second-hand plant.

Later, he said, at page 58:

There remains the fact which was avowedly the original ground of the commissioners' decision—"this was an isolated case". But, as we know, that circumstance does not prevent a transaction which bears the badge of trade from being in truth an adventure in the nature of trade. The true question in such cases is whether the operations constitute an adventure of that kind, not whether they by themselves, or they in conjunction with other operations, constitute the operator a person who carries on a trade. Dealing is, I think, essentially a trading adventure, and the respondents' operations were nothing but a deal or deals in plant and machinery.

The cases establish that the inclusion of the term "adventure or concern in the nature of trade" in the definition of "trade" in the United Kingdom Act substantially enlarged the ambit of the kind of transactions the profits from which were subject to income tax. In my opinion, the inclusion of the term in the definition of "business" in the Canadian Act, quite apart from any judicial decisions, has had a similar effect in Canada. I am also of the view that it is not possible to determine the limits of the ambit of the term or lay down any single criterion for deciding whether a particular transaction was an adventure of trade for the answer in each case must depend on the facts and surrounding circumstances of the case. But while that is so it is possible to state with certainty some propositions of a negative nature.

The first of these is that the singleness or isolation of a transaction cannot be a test of whether it was an adventure in the nature of trade. In *Atlantic Sugar Refineries Limited v. Minister of National Revenue*¹ I expressed the opinion

¹ [1948] Ex. C.R. 622 at 631.

that the fact that a transaction was an isolated one did not exclude it from the category of trading or business transactions of such a nature as to attract tax to the profit therefrom and cited several decisions in support of my statement. The decision in that case was affirmed by the Supreme Court of Canada¹ and has been followed in other cases: *vide*, for example, *Honeyman v. Minister of National Revenue*². This does not mean that the isolation or singleness of a transaction has no bearing on whether it was a business or trading transaction. On the contrary, it might be a very important factor.

But "trade" is not the same thing as "an adventure in the nature of trade" and a transaction might well be the latter without being the former or constituting its maker a "trader". And whatever merit the singleness or isolation of a transaction may have in determining whether it was a trading or business transaction it has no place at all in determining whether it was an adventure in the nature of trade. The very word "adventure" implies a single or isolated transaction and it is erroneous to set up its singleness or isolation as an indication that it was not an adventure in the nature of trade. Lord Simonds put the matter explicitly in *Edwards v. Bairstow (supra)* when he said, at page 54:

The determination that a transaction was not an adventure in the nature of trade because it was an isolated transaction was clearly wrong in law.

In my opinion, it may now be taken as established that the fact that a person has entered into only one transaction of the kind under consideration has no bearing on the question whether it was an adventure in the nature of trade. It is the nature of the transaction, not its singleness or isolation, that is to be determined.

Nor is it essential to a transaction being an adventure in the nature of trade that an organization be set up to carry it into effect. The contention that this is necessary arose from the finding of the Commission in *Martin & Lowry*³ which the House of Lords did not disturb, but it is plain from the decisions in such cases as *Rutledge v. The Commissioner of Inland Revenue (supra)* and *Lindsay et al v.*

¹ [1949] S.C.R. 706.

² [1955] Ex. C.R. 200 at 208.

³ [1927] A.C. 312.

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The Commissioners of Inland Revenue (supra) that a transaction can be an adventure in the nature of trade even although no organization has been set up to carry it into effect.

And the two last mentioned cases are authority for saying that a transaction may be an adventure in the nature of trade even although nothing was done to the subject matter of the transaction to make it saleable, as in *The Commissioners of Inland Revenue v. Livingston et al (supra)*.

Likewise, the fact that a transaction is totally different in nature from any of the other activities of the taxpayer and that he has never entered upon a transaction of that kind before or since does not, of itself, take it out of the category of being an adventure in the nature of trade. What has to be determined is the true nature of the transaction and if it is in the nature of trade, the profits from it are subject to tax even if it is wholly unconnected with any of the ordinary activities of the person who entered upon it and he has never entered upon such a transaction before or since.

And a transaction may be an adventure in the nature of trade although the person entering upon it did so without any intention to sell its subject matter at a profit. The intention to sell the purchased property at a profit is not of itself a test of whether the profit is subject to tax for the intention to make a profit may be just as much the purpose of an investment transaction as of a trading one. Such intention may well be an important factor in determining that a transaction was an adventure in the nature of trade but its presence is not an essential prerequisite to such a determination and its absence does not negative the idea of an adventure in the nature of trade. The considerations prompting the transaction may be of such a business nature as to invest it with the character of an adventure in the nature of trade even without any intention of making a profit on the sale of the purchased commodity. And the taxpayer's declaration that he entered upon the transaction without any intention of making a profit on the sale of the purchased property should be scrutinized with care. It is what he did that must be considered and his declaration that he did not intend to make a profit may be overborne by other considerations of a business or trading nature motivating the transaction.

Consequently, the respondent in the present case cannot escape liability merely by showing that his transaction was a single or isolated one, that it was not necessary to set up any organization or perform any operation on its subject matter to carry it into effect, that it was different from and unconnected with his ordinary activities and he had never entered into such a transaction before or since and that he purchased the lead without any intention of making a profit on its sale to the Company.

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Nor is there any comfort for the respondent in the decision in *Leeming v. Jones*¹ on which counsel for the respondent strongly relied. The facts in that case were that L. joined with three other persons in obtaining an option to purchase a rubber estate in the Malay Peninsula. It was not large enough for re-sale to a public company to be formed to work it, and a further option to purchase an additional estate was acquired. Ultimately, the two estates were sold to a company at a profit in which L. shared. He was assessed to income tax on the amount of this profit and appealed to the Commissioners who found that he acquired an interest in the property with the sole object of turning it over at a profit and that he did not have any intention of holding it as an investment and they confirmed the assessment. L. appealed from this decision and Rowlatt J. sent the case back to the Commissioners for a finding whether the transaction was an adventure in the nature of trade. They then found that it was not "a concern in the nature of trade". The case then came back to Rowlatt J. who allowed the appeal from the Commissioners' confirmation of the assessment. From this decision the Crown appealed to the Court of Appeal which unanimously dismissed its appeal and a further appeal to the House of Lords was also unanimously dismissed.

I have read the reasons for judgment in the Court of Appeal and in the House of Lords with care and can fairly say that the case did not decide what constitutes or does not constitute an adventure or concern in the nature of trade and did not purport to do so. Both the Court of Appeal and the House of Lords accepted the finding of the Commissioners that the transaction in question was not a concern in the nature of trade. That being so, the only issue before them was whether L's profit, not being a profit

¹ [1930] 1 K.B. 279; [1930] A.C. 415.

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from a concern in the nature of trade and, therefore, not taxable under Case I of Schedule D of the *Income Tax Act, 1918*, could be taxable as a profit under Case VI of Schedule D and they held that it could not. If it was not an adventure or concern in the nature of trade, as found by the Commissioners, the profit from it was not taxable. There was no middle course. As Lawrence L.J. put it in the Court of Appeal, at page 301:

I have the greatest difficulty in seeing how an isolated transaction of this kind, if it be not an adventure in the nature of trade, can be a transaction ejusdem generis with such an adventure and therefore fall within Case VI. All the elements which would go to make such a transaction an adventure in the nature of trade, in my opinion, would be required to make it a transaction ejusdem generis with such an adventure. It seems to me that in the case of an isolated transaction of purchase and re-sale of property there is really no middle course open. It is either an adventure in the nature of trade, or else it is simply a case of sale and re-sale of property. If in such a transaction as we have here the idea of an adventure in the nature of trade is negatived, I find it difficult to visualize any source of income, or to appreciate how such a transaction can properly be said to have been entered into for the purpose of providing income or revenue.

This is plainly not a statement that an isolated transaction of purchase and re-sale of property is not an adventure in the nature of trade. It was made with an acceptance of the Commissioners' finding that it was not such an adventure and without any attempt to assess the facts of the transaction independently. The idea of an adventure in the nature of trade having thus been negatived by the Commissioners, there was no other source of taxable profit. The case affords a striking illustration of the care that must be taken in applying an English income tax decision to a Canadian case. There the Court was faced with the complication resulting from the fact that it was bound by the finding of fact made by the Commissioners, a complication that does not exist in Canada. If the facts in that case had come before a Canadian Court it would have been open to it to find that they did constitute an adventure in the nature of trade. In view of this feature of the case the decision in *Leeming v. Jones*, whatever its value in the United Kingdom particularly in the light of the decision in *Edwards v. Bairstow (supra)*, is of little, if any, value in Canada. Certainly, it is of no value to the respondent.

In addition to the negative propositions established by the cases they also lay down positive guides. There is, in the first place, the general rule that the question whether a particular transaction is an adventure in the nature of trade depends on its character and surrounding circumstances and no single criterion can be formulated.

But there are some specific guides. One of these is that if the transaction is of the same kind and carried on in the same way as a transaction of an ordinary trader or dealer in property of the same kind as the subject matter of the transaction it may fairly be called an adventure in the nature of trade. The decisions of the Lord President in the *Livingston* case (*supra*) and the *Rutledge* case (*supra*) support this view. Put more simply, it may be said that if a person deals with the commodity purchased by him in the same way as a dealer in it would ordinarily do such a dealing is a trading adventure: *vide* Lord Radcliffe's reasons for judgment in *Edwards v. Bairstow* (*supra*).

And there is the further established rule that the nature and quantity of the subject matter of the transaction may be such as to exclude the possibility that its sale was the realisation of an investment or otherwise of a capital nature or that it could have been disposed of otherwise than as a trade transaction: *vide* the reasons for judgment of Lord Sands in the *Rutledge* case (*supra*). And there is the statement of Lord Carmont in the *Rheinhold* case (*supra*) that there are cases "where the commodity itself stamps the transaction as a trading venture."

In my opinion, the principles laid down in the *Rutledge* case (*supra*), the *Fraser* case (*supra*) and the *Edwards v. Bairstow* case (*supra*) are applicable to the present case and I have no hesitation in holding that the respondent's purchase and sale of 1500 tons of lead was an adventure in the nature of trade. I do not see how it could possibly have been anything else. His transaction was certainly an adventure, a bold and imaginative one and highly successful, both for the Company and for himself, and the only question is whether it was in the nature of trade. If the alternatives are whether it was of a capital nature or in the nature of trade I am unable to see how there can be any doubt of which it was. The nature and quantity of its subject matter, namely, 1500 tons of lead requiring 22 carloads to carry

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it, excluded any possibility that it was of an investment nature involving the realization of a security or resulted in a fortuitous accretion of capital or was otherwise of a capital nature. It is plain that the respondent had no considerations of a capital nature in mind. The nature and quantity of the subject matter of the transaction were such as to exclude the possibility that it was other than a transaction of a trading nature. The respondent could not do anything with the lead except sell it and he bought it solely for the purpose of selling it to the Company. In my judgment, the words of Lord Carmont in the *Rheinhold* case (*supra*) that "the commodity itself stamps the transaction as a trading transaction" apply with singular force to the respondent's transaction.

Moreover, he dealt with the lead in exactly the same manner as any dealer in imported lead would have done. He bought it from abroad and sold it to a user of lead in Canada, namely, the Company. If it had bought the lead it would have been subject to tax on the profit made by it on the sale of its products fabricated from the lead so bought. The respondent merely did what the Company would have done if his judgment in the matter had prevailed. But since the Company was not permitted by the parent company to deal in the lead the respondent dealt in it himself and did so exactly in the same manner as a trader or dealer in imported lead would have done. This brings his transaction within the decisions of the Lord President in the *Livingston* and *Fraser* cases (*supra*). It was a dealing in lead and, as such, it was, in the words of Lord Radcliffe in *Edwards v. Bairstow* (*supra*), essentially a trading adventure.

It is of no avail to the respondent that when he purchased the lead he did so without any intention of selling it to the Company at a profit. He did not pretend that his purchase was for an investment purpose. All his reasons were business reasons of a trading nature. His adventure was a speculative one. When lead prices broke others in the industry were unwilling to gamble but he did not hesitate. He saw advantages of a business nature in the transaction

and these outweighed with him the risk of loss which he undertook. He calculated that the advantages outweighed the risk and he deliberately assumed it. He was justified in his speculative venture. The Company got the benefit of a substantial drawback of approximately \$30,000. The respondent was rehabilitated with the Company and in his own self esteem. He made up for his remissness in making a bad deal causing a substantial loss to the Company through relying on a verbal agreement with the Canadian supplier. And he succeeded in getting better supply terms from the Canadian supplier. As for himself his venture brought him the personal satisfaction of victory as well as an increase in salary and pension rights. These possible advantages were all contemplated by him. The evidence indicates that he entered into the transaction for a variety of purposes but they were all of a business nature and many of them were similar to those that would have motivated a trader. His transaction was a dealing in lead and nothing else.

I am, therefore, of the opinion that the respondent's transaction was an adventure in the nature of trade within the meaning of section 127(1)(e) of *The Income Tax Act* of 1948, and that his profit from it was profit from a business within the meaning of section 3 of the Act and that the Minister was right in including it in the assessment.

In view of this finding it is unnecessary to consider the alternative contention put forward by counsel for the Crown that the respondent's profit came from an office or employment.

The result is that the appeal from the decision of the Income Tax Appeal Board must be allowed and the Minister's assessment restored except, as already stated, that the amount of profit to be assessed should be \$70,098.80 instead of \$83,712.24. And the appellant is entitled to costs.

Judgment accordingly.

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<p>1954 Nov. 25-26, 29-30 1956 Dec. 28</p>	<p>BETWEEN:</p> <p>PUBLISHERS GUILD OF CANADA } LIMITED }</p> <p style="text-align: center;">AND</p> <p>THE MINISTER OF NATIONAL } REVENUE }</p> <p>AND BETWEEN:</p> <p>THE MINISTER OF NATIONAL } REVENUE }</p> <p style="text-align: center;">AND</p> <p>PUBLISHERS GUILD OF CANADA } LIMITED }</p>	<p>APPELLANT;</p> <p>RESPONDENT.</p> <p>APPELLANT;</p> <p>RESPONDENT.</p>
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Revenue—Income tax—Excess profits tax—Income War Tax Act, R.S.C. 1927, c. 97, ss. 3, 6(d), 68—Excess Profits Tax Act, 1940, S.C. 1940, c. 32—Taxpayer not entitled to anonymity—Duty of accountants in applying accounting systems—Taxpayer in business of selling books and magazines with sale price payable in instalments—Applicability of instalment system of accounting—Unrealized gross profit content of instalments remaining unpaid at end of year not income.

The taxpayer carried on the business of selling books and magazines through door to door canvassers. Its customers paid a small amount on signing the order for them, a further small amount on their delivery and the balance in weekly instalments of about \$1 each. The cost of the books and magazines to the taxpayer was small, but the selling costs and other expenses of the business, including the costs of collecting the instalments, were high. The accounts were poor paying ones.

Prior to 1945 the taxpayer kept its accounts and made its income tax and excess profits tax returns on the accrual basis of accounting under which the amounts of the sale prices of the books and magazines were included in its profit and loss account for the year in which the sales were made, whether they were received or not, subject to an allowance for debts of a doubtful nature, and the expenses were charged as they were incurred, whether laid out or expended or not. In 1945 the taxpayer commenced to report its income on the instalment system of accounting under which it took into income for the year only the gross profit content of the instalment payments actually received by it in the year and charged against such income the expenses of carrying on the business as they were incurred, including commissions, handling and selling costs, general overhead and collected costs. In assessing the taxpayer for the years in dispute the Minister put its accounts back on the accrual basis. The taxpayer appealed to this Court against its income tax assessment for 1945 and its excess profits tax assessments for 1945, 1946 and 1947. It also appealed against its income tax assessments for 1946, 1947 and 1948 to the Income Tax Appeal Board which allowed its appeals and the Minister appealed from its decision. The appeals were heard together.

Held: That, while section 68 of the *Income War Tax Act* gave the taxpayer the right to have the proceedings before the Court held in camera, the section was in derogation of the fundamental principle that court proceedings are open to the public and its operative effect should not be extended beyond its express terms. It did not entitle the taxpayer to the cloak of anonymity or to hide behind a number or conceal the fact that he had appealed against his income tax assessment.

2. That it is the duty of the accountant to apply to the business of his client the system of accounting that is appropriate to it and most nearly reflects its financial position, including its income position, at the time and for the period required.
3. That, in the absence of statutory provision to the contrary, the validity of any particular system of accounting does not depend on whether the Department of National Revenue permits or refuses to allow its use.
4. That if the law does not prohibit the use of a particular system of accounting the opinion of accountancy experts that it is an accepted system and is appropriate to the taxpayer's business and most nearly accurately reflects his income position should prevail with the Court if the reasons for the opinion commend themselves to it.
5. That the instalment system of accounting is a recognized and accepted method of accounting and computing income and is preferable to other systems in the case of articles sold for a price payable in instalments where the down payment is small and the collection risk is substantial.
6. That the unrealized gross profit content of the instalments remaining unpaid at the end of the year was not income of the taxpayer for the year.
7. That the instalment system of accounting adopted by the taxpayer under which it excluded from the computation of its income for the year the unrealized gross profit content of the instalments remaining unpaid at the end of the year was appropriate to the taxpayer's business and more nearly accurately reflected its income position than any other system of accounting would do.
8. That there was no prohibition, express or implied, in the *Income War Tax Act* against the use by the taxpayer of the instalment system of accounting in the computation of its income.
9. That the accrual basis system of accounting was inappropriate to the taxpayer's business and the Minister's assessments were erroneous.
10. That section 6 of the *Income War Tax Act* did not apply in the present case. The taxpayer did not transfer or credit any amount from its income to a reserve, contingent account or sinking fund.
11. That the taxpayer's appeals should be allowed and the Minister's appeal dismissed.

APPEALS against income tax and excess profits tax assessments and from decision of the Income Tax Appeal Board.

The appeals were heard together before the President of the Court at Toronto.

A. D. McAlpine for Publishers Guild of Canada Limited.

Joseph Singer, Q.C., and *T. Z. Boles* for Minister.

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The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (December 28, 1956) delivered the following judgment.

These two appeals were heard together. The first is an appeal by the taxpayer against its income tax assessment for 1945 and its excess profits tax assessments for 1945, 1946 and 1947. The second is an appeal by the Minister from the decision of the Income Tax Appeal Board, sub nom. *No. 90 v. Minister of National Revenue*¹, dated March 6, 1953, allowing the taxpayer's appeals against its income tax assessments for 1946, 1947 and 1948.

At the request of counsel for the taxpayer the proceedings were held in camera, pursuant to section 68 of the *Income War Tax Act*, R.S.C. 1927, Chapter 97, which provides as follows:

68. Proceedings before the Exchequer Court hereunder shall be held in camera upon request made to the Court by any party to the proceedings.

But while this section gives a party the right to have the proceedings before the Court held in camera it does not entitle him to the cloak of anonymity. The section is in derogation of the fundamental principle that court proceedings are open to the public and its operative effect should not be extended beyond the permission of its express terms. It does not entitle the taxpayer to hide behind a number or conceal the fact that he has appealed against his assessment. All that it gives him is the right to have the proceedings before this Court held in camera. He is not entitled to any other secrecy. Consequently, in the case of an appeal directly to this Court against an income tax assessment the taxpayer's name remains in the style of cause of the proceedings and in the case of an appeal to this Court from a decision of the Income Tax Appeal Board where the Board has substituted a number for the name of the taxpayer in its reasons for judgment it is the practice of this Court to restore the name of the taxpayer to the style of cause and keep it there.

These appeals present a novel and difficult problem. While the issue in both of them is, of course, whether the

¹ (1953) 8 Tax. A.B.C. 161.

assessments levied against the taxpayer for the years in dispute are correct, and there is a statutory presumption of their validity until they are shown to be erroneous either in fact or in law, the appeals involve consideration of the appropriateness of the instalment system of accounting to the taxpayer's business and the computation of its income. There are two questions for determination, the first being whether the instalment system of accounting is appropriate to the taxpayer's business and accurately reflects its income and profit position, and the second whether there is any provision in the governing *Income War Tax Act*, R.S.C. 1927, Chapter 97, that either expressly or by implication prohibits its use. That is the difficulty of the situation. Its novelty is that this is the first occasion on which this Court has been called upon to consider the appropriateness and legality of the instalment system of accounting.

The facts are not in dispute. The taxpayer carries on its business in Toronto and Vancouver, has its head office at Toronto and is the Canadian subsidiary of Publishers Guild Incorporated, a United States corporation having its head office in New York. Its business is the selling of books and magazines through door to door canvassers. Through them it makes three kinds of combination offers to its intended customers, one for \$29.90 and two for \$21.60 each. The terms of the offers are similar but, for convenience, I shall refer only to the \$29.90 offer. For this amount it offers three books from a specified list and subscriptions to three magazines also from a specified list. The terms of the offer are that the customer will pay \$3 to the canvasser on signing the order, \$2.90 and delivery charges on the delivery of the books, and the balance of \$24 in weekly instalments of \$1 each. A person is not listed as a customer until the \$2.90 and delivery charges have been paid. Thereafter, a delivery report is made showing the name of the canvasser, the name of the customer, the amount of the sale, the \$3 deposit and the \$2.90 delivery payment, and the various commissions paid. The taxpayer also keeps a ledger account for each customer showing the name of the canvasser, the books and magazines covered, the payments made, and the number of notices sent out. The taxpayer sends all details to its parent in New York which keeps a duplicate set of books.

The books sold on a \$29.90 order vary in their cost to the taxpayer but their average cost is about \$5.50. The magazine

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subscriptions cost about \$2.50 so that the cost of the merchandise content of each \$29.90 sale, meaning thereby the cost of the books and the magazine subscriptions, is about \$8. Thus, its gross profit from the \$29.90 sale, over and above the cost of the merchandise content, is about \$21.90 which, in round figures, is 70 per cent of the sale price. This percentage was used in the course of the hearing and I shall continue to use it, although it was actually somewhat higher, varying in amount according to the cost of the books and the magazine subscriptions selected by the customer. The gross profit referred to is, of course, calculated on the assumption that the full amount of the sale price is paid.

The books come out of the taxpayer's stock. They are bought by its parent from the publishers and the taxpayer pays its parent for them. The magazine subscriptions are not ordered until after the \$2.90 and delivery charges c.o.d. payment has been made. Thus, all the cost of the merchandise content of the \$29.90 sale has been either actually laid out and expended or incurred before any of the \$24 instalments have been received.

The direct selling costs are high. On each \$29.90 sale the canvasser gets a direct commission of \$5.50, the sales manager an over-riding commission of \$2.40, the branch manager a commission of 90 cents, and the sales manager an additional expense allowance of \$1.50, making a total direct selling cost of \$10.30. When this is added to the cost of the merchandise the total merchandise and direct selling cost comes to \$18.30 leaving a gross profit on the \$29.90 sale of \$11.60. But this is subject to deduction for handling and shipping costs and general overhead and office expenses including heavy expenses for the collection of overdue accounts and other correspondence relating to the sales, such as letters about damaged books, magazine subscriptions, changes of address, complaints and other matters. Approximately 80 per cent of the taxpayer's total office expenses is due to its intensive efforts to collect the unpaid instalments.

The evidence is conclusive that the accounts are poor paying accounts. The merchandise is sold without any inquiry as to the customer's credit rating. No security is given for the fulfilment of the promise to pay the balance of \$24 except that the taxpayer retains title to the books

until the account is paid in full, but this right is of little value for, in practice, the books are not worth re-possessing, since used books cannot be delivered to a customer, and they are not repossessed on failure to pay. The accounts are of an uncertain character and difficult to collect. Many of the orders are signed by housewives whose husbands repudiate them. And it is the exception rather than the rule that the instalment payments are made as promised. Moreover, the collections made by the taxpayer are due to its intensive collection efforts. About 80 per cent of its office staff of from 10 to 17 persons is engaged on collections. It has over 40 form letters in its series of dunning letters and also about 30 others of various types. It continues its dunning efforts as long as there seems any possibility of collection. In addition, it gives inducements in the form of an additional book, such as an Atlas, which costs \$2.65, for what is called "cashing-up" the remaining payments. The evidence of Mr. S. R. E. Wilner, the taxpayer's general branch manager at Toronto, was illuminating. He analysed 200 consecutive accounts in its ledger to illustrate the extent to which dunning letters have to be sent out in order to effect payments. Of these 15 per cent "cashed-up" as the result of the inducements held out, 20.5 per cent were good paying accounts requiring only from 1 to 4 dunning letters, 20 per cent required from 5 to 9 letters, 18.5 per cent from 10 to 20 letters, 16.5 per cent from 21 to 29 letters and 9.5 per cent 30 letters and over. Even with this intensive dunning 40 of the 200 accounts referred to remained unpaid.

After the taxpayer has exhausted its own efforts to collect from its customers it sends its delinquent accounts to the Guardian Credits Corporation for collection. It charges 50 per cent on what it collects but it handles the taxpayer's accounts only when it has no other accounts to process. They are its poorest accounts for collection. It collects less than 10 per cent of the accounts handed to it.

The taxpayer's unpaid accounts are not of the kind that can be discounted. Mr. R. H. Soren, the owner and manager of Guardian Credits Corporation, said that he did not know any finance company that would discount the taxpayer's unpaid accounts without a 100 percent recourse to it. He would not pay anything for the accounts turned over to him and would not go far beyond 15 to 20 per cent for all its unpaid accounts. On his cross-examination he expressed the

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opinion that a bank would not loan money on the accounts and this opinion was concurred in by Mr. F. Findley, the manager of the King and York branch of the Imperial Bank of Canada. A chartered bank would not discount the accounts or lend money on them although it would consider them in ascertaining the worth of their owner.

Prior to 1945 the taxpayer kept its accounts and made its income tax and excess profits tax returns on what is known as the accrual basis system of accounting and computing profit. Under this system transactions are recorded in the accounts as they occur; as sales are made their amounts are included in the profit and loss account, whether they are received in the year or not, with a provision for an allowance for debts of a doubtful nature, and expenses are brought into account as a charge against income as they are incurred, whether they are laid out or expended in the year or not. This means, in the case of the taxpayer, that as soon as a customer paid the \$2.90 and delivery charges on the delivery of the books, the \$24 balance which he owed was brought into the taxpayer's income for the year, regardless of whether any instalment was payable or received in the year, and, on the other hand, all expenses were charged as expenditures for the year regardless of whether they had been actually laid out or expended or not.

For a good many years prior to 1945 the taxpayer's parent had kept its accounts and made its United States income tax returns on what is known as the instalment system of accounting and computing profit and the taxpayer desired to adopt a similar method. Before doing so its tax consultant, Mr. J. K. Punchard, consulted Mr. A. H. McLachlin, the Minister's supervisor in the corporation assessment section of the Department's Toronto office, and then, on December 17, 1945, wrote to the Inspector of Income Tax at Toronto as follows:

Dear Sir:

Attention: Mr. A. H. McLachlin

Re: Publishers Guild of Canada Limited

Relative to our discussion today regarding the basis of accounting used by this company, we wish to state that the officers of the company are desirous of using the instalment method of accounting in place of the accrual method in use to December 31, 1944. To be consistent with the practice of the parent organization in the U.S.A. and in accordance with the regulations provided by American taxing authorities, the company now seeks your approval to use the instalment method of accounting from January 1, 1945.

As we pointed out to you, the company is in the business of selling, by door to door canvass, magazine subscriptions together with a book as a premium. Payments receivable on the instalment basis usually spread over a twelve month period. In this class of business the risks are great and the possibility of recovery of the goods is limited.

We refer you to our letter of June 22, 1945 relative to Encyclopedia Library of Canada Limited to which was attached a summary showing the effect of the use of this basis on the accounts of the company. Both companies are comparable and to be consistent with American practice could readily adopt the instalment basis of accounting to which we have referred.

We should appreciate your examining this matter and advising us of your approval for the year 1945 and subsequently. The company is prepared to follow this practice continuously. We should be glad to discuss the matter further with you.

Yours very truly,

J. K. Punchard
VARDON, PUNCHARD & CO.

and, on December 20, 1945, the Toronto Inspector of Income Tax, per J. Roberts, the chief auditor for corporations, replied as follows:

Dear Sirs:—

Attention: Mr. J. K. Punchard, C.A.
Re: Publishers Guild of Canada Limited.

Your letter of Dec. 17, 1945 relative to the basis of accounting used by the above company is acknowledged.

It is noted that the company desires to change the basis from the accrual method to a basis of taking profits on sales into revenue account only as instalment payments are received and that this proposed method is in line with the practice of the parent organization in the U.S.A. As the company is prepared to follow this practice continuously this office will recommend that it be accepted for tax purposes, and applicable to the period ending Dec. 31, 1945.

Yours truly,

INSPECTOR OF INCOME TAX
Per: J. Roberts
Chief Auditor, Corporations.

On the receipt of this reply Mr. Punchard advised the taxpayer's parent in New York that the instalment system of accounting was to be recommended and he recommended that the taxpayer should change its accounting system accordingly. His recommendation was adopted and the taxpayer's income tax and excess profits tax returns for the years 1945 to 1948 were based on the instalment system of

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accounting and computing profit. I shall describe the operation of this system later. At the moment, it is sufficient to say that under it the taxpayer, subject to what I shall point out later, took into income for the year only the gross profit content of the instalment payments actually received by it in the year, or, to put it negatively, and more precisely, it excluded from its computation of income for the year the unrealized gross profit content of the instalments that remained unpaid at the end of the year.

When the Minister assessed the taxpayer for the years in dispute he put its accounts back on the accrual basis of accounting on which it had made its tax returns for the years prior to 1945. This appears from the notices of assessment, dated March 14, 1951. For example, for 1945 he added to the amount of taxable income reported by the taxpayer the sum of \$74,071.93 as unrealized gross profit and deducted \$14,816.85 as his allowance for bad debts making a net addition of \$59,255.08. The sum of \$74,071.93 represented the unrealized gross profit content of the instalments in respect of the taxpayer's 1945 sales that remained unpaid at the end of 1945 after it had written off \$52,879.50 for bad debts, which amount the taxpayer had excluded from its computation of income for the year, and the sum of \$14,816.85 was 15 per cent of \$98,778.97, which was the amount of the taxpayer's unpaid instalments in respect of its 1945 sales at the end of 1945 after its write-off for bad debts. The Minister followed a similar course in assessing the taxpayer for 1946, 1947 and 1948 and it is not necessary to set out his figures for each of the years.

The taxpayer appealed to the Minister against the income tax assessment for 1945 and the excess profits tax assessments for 1945, 1946 and 1947, but he affirmed them and the taxpayer then appealed to this Court. The taxpayer also objected to the income tax assessments for 1946, 1947 and 1948 but the Minister confirmed them and the taxpayer appealed to the Income Tax Appeal Board which allowed its appeals and set aside the assessments. From this decision the Minister appealed to this Court. The issues in each case are the same and it was accordingly ordered that the appeals be heard together.

In order to determine whether the assessments appealed against are correct it is desirable to ascertain the manner

in which the taxpayer kept its accounts under the instalment system of accounting and how it differed from the accrual basis system.

Evidence relating to the instalment system was given by Mr. T. A. M. Hutchison, a chartered accountant of 25 years standing and a Toronto resident partner of the international accounting firm of Peat, Marwick, Mitchell and Company, and by Mr. J. K. Punchard, a chartered accountant of 25 years standing and the senior partner of the Toronto accounting firm of Punchard, Grant and Company, who was the taxpayer's tax consultant and prepared or supervised the making of its tax returns.

Mr. Hutchison stated that the essential feature of the instalment system of accounting and computing profit as adopted by the taxpayer is that the gross profit content of the payments made by purchasers of the taxpayer's books and magazine subscriptions is taken into income for the year only as the payments are received but the expenses of carrying on the business are charged against the income as they are incurred. Mr. Punchard put its essential feature negatively and, in my opinion, more precisely, when he said that the instalment system excludes from the computation of income for the year the unrealized gross profit content of the instalments remaining unpaid at the end of the year.

The application of the instalment system to the taxpayer's business was illustrated by reference to a single sale for \$29.90 in respect of which only \$5.90 had been paid in the year, the balance of \$24 payable in weekly instalments of \$1 each remaining unpaid. If the gross profit in the sale, if the price was all paid, would be 70 per cent of the sale price then all that is taken into income in respect of the \$5.90 received is 70 per cent of it, namely, \$4.13. All the payments received by the taxpayer in the year are treated in the same way, that is to say, only 70 cents of each dollar received is taken into income. This is so whether the payment is the initial one of \$5.90 or an instalment and whether the sale in respect of which it is made was made in the year of the payment or previously. Thus, the total of the amounts of the gross profit content of the payments received by the taxpayer in the year is taken as the income for the year. To put it negatively, as Mr. Punchard did, the taxpayer excludes from its computation of income

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for the year the estimated gross profit content of the instalments that are not paid in the year and, consequently, not received by it. Against the income thus computed the taxpayer charges, subject to what I shall point out later, its expenses for the year, whether laid out or incurred, including commissions on the sales made in the year, handling and shipping costs, and general overhead and office expenses including collection costs.

The statement that only the gross profit content of the payments received by the taxpayer is taken into income for the year requires clarification. What is meant is that the full amount of each payment is taken into account but there is charged against it the cost of the merchandise content proportionate to it. Thus, if \$8 was the cost of the merchandise content of the \$29.90 sale, so that the gross profit would, in round figures, be 70 per cent of the sale price, then the cost of its merchandise content would, in round figures, be 30 per cent. Consequently, 30 per cent of the \$5.90 received, or \$1.77, is charged against it leaving the gross profit content of \$4.13 above referred to. There is a similar charge against the amount of each payment received of the cost of the merchandise content proportionate to it.

It follows, of course, that since the unpaid instalments are not taken into account in the year the cost of the merchandise content proportionate to them is not charged against the income for the year. Thus, for example, out of the \$8 cost of the merchandise content of the \$29.90 sale there remains \$6.23 which, although actually paid or incurred, is not charged as an expense against the income for the year. It remains really as inventory.

It is, of course, disclosed in the balance sheet that the accounts are kept on the instalment system of accounting and the unpaid instalments appear in it as an asset valued at the cost of the merchandise content proportionate to them. The unpaid instalments are the taxpayer's accounts receivable but their amount is reduced in value to the inventory cost of the merchandise content proportionate to them. Thus, in the illustration referred to, the \$24 instalments remaining unpaid at the end of the year are valued at \$6.23 and appear, in effect, on the balance sheet at such value. All the payments remaining unpaid at the end of the year are valued in the same way. In effect, it is said that the accounts

receivable, that is to say, the instalments remaining unpaid, are worth the cost of the merchandise content proportionate to their amount and it is at this valuation that they are included in the taxpayer's computation of income for the year.

While there is no specific reference to this valuation in the taxpayer's profit and loss statement and there is no actual appraisal in it of the value of the accounts receivable at this amount, it is really included in its income in the manner described. Thus, in the example used, since \$6.23 has already been paid or incurred by the taxpayer for the merchandise content of the unpaid \$24 instalments but has not been charged as an expense against the income for the year it remains in the income over and above the gross profit content of the \$5.90 payment received. In this way the \$24 account receivable is brought into account at the cost of the merchandise content proportionate to it, namely, \$6.23, which works out at about 25 per cent of its full amount. All the instalments remaining unpaid at the end of the year are dealt with in the same way. Thus, it may be said that a valuation is made of the taxpayer's accounts receivable and that they are brought into account and, therefore, included in income at the cost of the merchandise content proportionate to their amount. This cost is, of course, taken into account in the year in which the sale is made and the taxpayer becomes entitled to the account receivable.

Thus, the taxpayer's income for the year includes the gross profit content of the payments received by it in the year and the valuation of its accounts receivable at the end of the year at the cost of the merchandise content proportionate to their amount.

Thus, it will be seen that the instalment system of accounting differs from the accrual basis system only in its computation of income. Instead of taking into income for the year the full amount of the sale price as soon as a sale is made, as the accrual basis system does, even although the instalments are not payable in the year and regardless of whether they are collectible or not, the instalment system takes into income for the year only the gross profit content of the instalments actually received in the year, that is to say, the full amount of such payments less the cost of the merchandise content proportionate to them. There is also the further fact that, while the instalment payments

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remaining unpaid at the end of the year are not taken into income at their face amounts, a valuation is placed on them at the cost of the merchandise content proportionate to them and the amount of such valuation is, in effect, included in the income in the manner described.

Mr. Punchard stated the difference between the two accounting systems more simply. As he put it, the instalment system differs from the accrual basis system only in that it excludes from the computation of income for the year the unrealized gross profit content of the accounts receivable, that is to say, the unrealized gross profit content of the instalments remaining unpaid at the end of the year. That is essentially the only difference between the two systems. Apart from this exclusion of unrealized gross profit content the two systems of accounting are similar.

I should also refer to the manner in which write-offs of bad debts and recoveries of bad debts, previously written off, are dealt with under the taxpayer's accounting system. An analysis of its bad debts was prepared by Mr. Punchard and filed as Exhibit 27. This showed for each year the amounts of the sales, the bad debts written off, the recoveries and the outstanding receivables. The amount of the write-off is fixed at the end of each year as the accounts are determined to be bad after a conference between the parent's auditor at New York and its accounting officials there. They are not written off the record at the taxpayer's offices at Toronto and Vancouver and it continues its efforts to collect them. There was some confusion implied in the questions put by counsel for the Minister to the taxpayer's witnesses which should be cleared up. The taxpayer's income for each year was not reduced by the amount of the bad debts written off in that year, notwithstanding the suggestion to the contrary by counsel for the Minister. He did not appear to understand the situation. The bad debts were written off against the gross sales of the year and not against the income for the year. Of that fact there can be no dispute. For example, the amount of the bad debts written off in 1945 was \$52,879.50. This was the amount of the unpaid instalments at the end of the year that were determined to be bad debts by reason of their being overdue for too long a time. But the income for 1945 was not reduced by that amount. All that was charged against it was \$13,220.36. This was the cost of the merchandise content

proportionate to the amount of the accounts written off. The reason for this being the only amount charged against the income is that it was the only amount that had been brought into account in respect of the accounts when it was included in the income in the first place in the manner I have described. Similarly, in 1946 the amount of the write-off of bad debts was \$84,428.78 but the income for the year was reduced by only \$23,515.62, that being the cost of the merchandise content proportionate to \$84,428.78. And similarly in 1947, in respect of the \$62,567.61 written off only \$16,228.37 was charged against the income for the year. And in 1948, while \$63,659.67 was written off, the income for the year was reduced by only \$18,376.69. Counsel for the respondent was thus in error in suggesting in his cross-examination of the accountancy experts that the taxpayer's income was reduced in each year by the amount of the bad debts written off. It was reduced only by the amount of the cost of the merchandise content proportionate to such amount for, as already explained, that was the only amount that had been included in income as already described.

I should also add that there is no merit in counsel's suggestion that the taxpayer could have worked out a percentage for an annual allowance for bad debts. Any such attempt would have led to as arbitrary a figure as the Minister's allowance of 15 per cent.

As for the recoveries made in respect of accounts that had previously been written off the payments received by the taxpayer in respect of such accounts were treated in the same way as any other payments received by it. Their gross profit content was taken into the income of the year in which the recoveries were made.

I now come to the opinions of the accountancy experts. Mr. Hutchison explained the operation of the instalment system of accounting as I have described it and stated that it was a recognized and accepted method of accounting and computing income. In his opinion, it was a suitable system to apply to the taxpayer's business and produced a more accurate computation of its income than any other system would do. His reasons for his opinion may be summarized. The taxpayer's accounts receivable for its unpaid instalments are different in kind from ordinary trade accounts receivable where the credit period is for 30 days and also

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different in kind from accounts receivable for unpaid instalments on such articles as automobiles or radios or television sets where there is a valuable lien right and, in the case of automobiles, a protection by insurance, and the risks of collection are slight. Mr. Hutchison expressed the opinion that while the instalment system is accepted by accountants and could be applied in all cases where articles are sold for a price payable in instalments it is not the most appropriate system to apply to the sale of such articles as automobiles to which the accrual basis system is ordinarily applicable. But it is more appropriate than the accrual basis one in cases where the period of payment of the instalments is protracted, where collection of the instalments is uncertain and the cost of collection high, where the accounts are of such doubtful value that they cannot be discounted or readily sold and where there are no valuable rights of repossession of the articles sold. All these conditions exist in the taxpayer's case. Consequently, the instalment system of accounting is very appropriate to its business and its use results in an accurate computation of its profit.

Mr. Punchard, with his greater knowledge of the taxpayer's method of conducting its business, was more explicit in his reasons for his opinion. He considered that the accrual basis system of accounting was not appropriate to the kind of business conducted by it and the nature of its accounts receivable and was strongly of the opinion that the instalment system would produce the most accurate computation of its income and most nearly accurately reflect its profit position. He agreed with the reasons put forward by Mr. Hutchison but added to them. One additional reason for considering the accrual basis system inappropriate to the taxpayer's business was that there was a large interest content due to the delay between the incurring of the expenses of the business and the receiving of the instalment payments, which interest content it improperly disregarded. And he particularly stressed the fact that the value of the taxpayer's accounts receivable at the end of the year was contingent on the success of its collection efforts in the following year or years. I shall refer to his reasons in greater detail later. Mr. Punchard also went farther than Mr. Hutchison in his general approval of the instalment system. In his opinion, it would be appropriate in all cases of articles sold for a price payable in instalments.

The expert opinions expressed by Mr. Hutchison and Mr. Punchard were supported by reference to recognized accountancy authorities and excerpts from their works were filed as exhibits. I enumerate them as follows; namely, Statement dealing with the instalment system of accounting in the course of instruction for chartered accountants prepared by chartered accountants designated by the Institute of Chartered Accountants and handled by Queen's University, Exhibit 9; H. A. Finney on Principles of Accounting—Advanced, at page 89, Exhibit 10; R. H. Montgomery on Auditing, at page 429, Exhibits 11 and 20; Smails on Auditing, at pages 91-92, Exhibit 16; C. T. Devine on Inventory Valuation and Periodic Income, at page 11, Exhibit 17; H. A. Finney on Principles of Accounting—Advanced, at pages 73 to 75, Exhibit 18; S. Gilman on Accounting Concepts of Profit, at pages 602-603, Exhibit 19; Dickinson Lectures on Developments in Accounting Theory, at pages 99-100, Exhibit 21; W. A. Paton on Essentials of Accounting, at pages 600-601, Exhibit 22; R. Kester on Advanced Accounting, at page 502, Exhibit 23; H. R. R. Hatfield on Accounting, at page 251, Exhibit 24; and W. A. Staub on Auditing Developments During the Present Century, at page 26, Exhibit 25. Mr. Punchard made it clear that his concurrence with the opinions expressed by these authorities was with their general trend, rather than with every detail of them.

There is a general recognition by the accountancy authorities that instalment sales raise special accounting problems. For example, H. A. Finney in his work on Principles of Accounting—Advanced points out, as appears from Exhibit 18, that instalment sales may be subject to greater collection losses and expenses than are incurred on regular sales, that collection losses are likely to be heavy because the opportunity to purchase luxuries on the instalment plan appeals to people who are not in a financial position to pay for them outright, and who, in many cases, are unable to pay for them even in instalments, and that expenses are also likely to be heavy since the instalment method involves additional collection and accounting costs. Then Finney points out, and his remark is particularly pertinent in the present case, that the expenses applicable to the sale are incurred in accounting periods subsequent

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to the period of sale. This led him to the following statement:

The accounting procedure must be based upon a recognition of this fact as it would be incorrect accounting to take up all the profit during the period of sale without making provision for expenses to be incurred in subsequent periods.

Then he recognizes the fact that, because losses and expenses incident to instalment selling are incurred in large amounts in periods subsequent to the period of sale, there is considerable difficulty in devising a method of taking up profits in a logical and conservative way. According to him two methods have been used. One is that all the profits should be taken up in the period of sale and that reserves should be set up for losses on bad debts, collection expenses and costs of reconditioning repossessed merchandise and the other that the profits should be taken up in instalments on the basis of cash collections. The latter method involves accounting by the instalment system. I think that I may safely say that it is generally recognized by the authorities that the instalment system of accounting is preferable to other systems in the case of instalment sales where the down payment is small and the collection risk is substantial. Finney refers to three forms of instalment systems showing the manner in which the cash collections are dealt with:

(a) The first collections are considered a return of cost and no profit is taken until the collection exceeds the cost.

(b) The first collections are considered profit and the last collections are considered a return of cost.

(c) Each collection is regarded as including profit and a return of cost in the same proportion that these two elements are included in the total selling price.

These three ways of dealing with the payments received in respect of instalment sales are also referred to by Kester in his work on Advanced Accounting, at page 502, as set out in Exhibit 23. Montgomery on Auditing prefers the first form of the instalment method in cases where the collection risk is extreme. At page 429, as appears from Exhibit 20, he says:

When the collection risk is considered to be extreme it is good practice to defer the recognition of profit until the entire cost has been recovered.

In the case of the \$29.90 sale, which I have been using by way of illustration, this would mean that no portion of the

sale price would be taken into income until after the full amount of the cost of the merchandise content of the sale, that is to say, \$8 had been paid. Mr. Hutchison stated that in pure theory this form of the instalment system could be followed but he agreed with Finney and Kester that it would be too conservative and he referred to the form of the system which the taxpayer adopted, which was the third one mentioned by Finney, as a compromise. This is not a precisely accurate statement. What he meant was that it is a middle form of the instalment system between the other two forms, both of which are extreme, one too conservative and the other too optimistic.

At this stage it would, I think, be appropriate to make some remarks of a general nature regarding the role of accountancy experts in income tax cases. The accountancy profession is not a static one and the system of accounting which accountants should apply to the accounts of the businesses in which they are called upon to act are not immutable. A system of accounting that would be appropriate to one kind of business is not necessarily appropriate to a different kind. Only an arbitrary minded person would contend that there is only one system of accounting of universal applicability. No reasonable person would do so. But while accountants devise changes in systems of accounting to meet the changing conditions in the business world and new ways of conducting business their guiding principle must always be the same. Accounting is really the recording in figures, instead of words, of the financial implications of the transactions of the business to which it is applied. The accountant is thus the narrator of the transactions, his narrative being in the form of figures instead of words. His narrative should be such as to disclose to persons understanding his language of figures the true position of his client's business at any given time or for any given period. The accountant cannot fulfil the duty thus required of him unless he has carefully considered the manner in which his client carries on his business and has applied to it the system of accounting that is appropriate to it and most nearly accurately reflects its financial position, including its income position, at the time or for the period required.

But the Court must not abdicate to accountants the function of determining the income tax liability of a taxpayer.

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That must be decided by the Court in conformity with the governing income tax law. It is an established principle of such law in this Court that there is a statutory presumption of validity in favor of an income tax assessment until it is shown to be erroneous and that the onus of doing so lies on the taxpayer attacking it. But while the Court must be mindful of this principle it must in its effort to apply the law objectively keep a watchful eye on arbitrary assumptions on the part of the tax authority such as, for example, that it is within its competence to permit or refuse any particular system of accounting and that its decision in the matter is conclusive. I cannot express too strongly the opinion of this Court that, in the absence of statutory provision to the contrary, the validity of any particular system of accounting does not depend on whether the Department of National Revenue permits or refuses its use. What the Court is concerned with is the ascertainment of the taxpayer's income tax liability. Thus the prime consideration, where there is a dispute about a system of accounting, is, in the first place, whether it is appropriate to the business to which it is applied and tells the truth about the taxpayer's income position and, if that condition is satisfied, whether there is any prohibition in the governing income tax law against its use. If the law does not prohibit the use of a particular system of accounting then the opinion of accountancy experts that it is an accepted system and is appropriate to the taxpayer's business and most nearly accurately reflects his income position should prevail with the Court if the reasons for the opinion commend themselves to it.

That, in my opinion, is the situation in the present case. Mr. Hutchison and Mr. Punchard were exhaustively and vigorously cross-examined by counsel for the Minister but he was unable to weaken their opinion. Indeed, his cross-examination served to strengthen it. It is, I think, noteworthy that their opinion was not contradicted. Counsel for the Minister did not call any witnesses. It could, therefore, be held, even on the brief summary of the reasons given by the accountancy experts which I have set out, that the instalment system of accounting as adopted by the taxpayer is an acceptable system, is appropriate to the taxpayer's business and more accurately reflects its income position than any other system of accounting would do. But in view of the importance of the question it would,

I think, be desirable to amplify the reasons that have led me to this finding.

Taxable income is defined by section 3 of the *Income War Tax Act*, in part, as follows:

3. For the purposes of this Act, "income" means the annual net profit or gain . . . directly or indirectly received by a person from . . . any trade, manufacture or business, . . .

And section 9 provides that it is upon the income during the preceding year that the tax is to be assessed. Consequently, in respect of each of the years in question the taxpayer is subject to income tax on the net profit received by it from its business during such year. That statement is substantiated by the decision of the Supreme Court of Canada in *Capital Trust Corporation Limited v. Minister of National Revenue*¹ where it was held that a sum received by the executor of an estate was all assessable for tax in the year of its receipt because it had been received during such year, notwithstanding the fact that it had been earned over a period of years. The test of taxability of income fixed by this decision is whether the income was received by the taxpayer during the taxation year. If it was, it is subject to tax regardless of when it was earned. It must, I think, follow from the decision that if the income, meaning thereby "the net profit or gain", was not received by the taxpayer during the taxation year he is not subject to income tax in respect of it. And it follows that he is then not subject to excess profits tax for such year.

It is clear that in assessing the taxpayer the Minister rejected the instalment system of accounting on which it had based its tax returns. This appears from an examination of its tax returns and the notices of assessment. For example, for 1945 the Minister added to the amount of taxable income reported by it the sum of \$74,071.93, less an allowance of \$14,816.85 for bad debts, or a net addition of \$59,255.08. The amount of \$74,071.93 represents the difference between \$98,778.87, the total amount of the taxpayer's accounts receivable in respect of its 1945 sales at the end of that year, after it had written off \$52,879.50 as bad debts; and \$24,706.94, the cost of the merchandise content proportionate to \$98,778.87. This \$74,071.93 is the amount that would have been the gross profit content of the instalments

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¹ [1937] S.C.R. 192.

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of \$98,778.87 if they had been received by the taxpayer in 1945, but which it excluded from its computation of income for 1945, as being the unrealized gross profit content of the instalments remaining unpaid at the end of that year, and, therefore, not profit received by it in 1945. But the Minister's net addition of \$59,255.08 to the taxpayer's reported taxable income is, in effect, an assertion by him that the taxpayer's accounts receivable, amounting to \$98,778.87, after the write-off for bad debts, constituted a "net profit" of \$59,255.08 "received" by it during 1945, over and above the amount of taxable income reported by it.

Thus the issue, so far as 1945 is concerned, is whether the defendant's accounts receivable at the end of 1945, meaning thereby the amount of the unpaid instalments in respect of its 1945 sales, constituted a receipt by it during 1945 of \$59,255.08 over and above the amount of taxable income, meaning thereby "net profit or gain", reported by it for that year.

I have no hesitation in finding, on the evidence before me and the opinions of the accounting experts, that the taxpayer did not in 1945 receive the additional profit or \$59,255.08 which the Minister's assessment thus ascribed to it and that his assessment for that year is to that extent, erroneous in fact.

There are several reasons for this finding. It is important to take a realistic view of the facts rather than the arbitrary one taken by the Department. In the first place, the evidence is conclusive that the taxpayer's accounts receivable at the end of the year, meaning thereby the instalments in respect of sales remaining unpaid, were quite different in character from ordinary trade accounts receivable which are likely to be paid within the short period of credit allowed to them without any considerable risk of loss or expense being incurred to effect their collection. The situation in the taxpayer's case was basically different. For example, its gross sales in 1945 amounted to \$467,170.80 but only \$315,519.13 was collected in that year leaving \$151,651.67 unpaid at the end of it. In 1946 there was a further collection of \$77,788.66 in respect of the 1945 sales but at the end of 1946 \$73,863.01 still remained unpaid in respect of them. In view of these undisputed facts it is unrealistic and untrue to say that the taxpayer's accounts receivable

at the end of 1945 for its instalments then remaining unpaid, amounting to \$98,778.87, after the write-off of \$52,877.50 for bad debts, constituted a receipt of profit by it during 1945 of \$59,255.05. I say, as emphatically as possible, that it did not.

The Minister seems to have admitted, although perhaps inadvertently, the inappropriateness of the accrual basis system of accounting, as it is ordinarily understood, to the taxpayer's business for he did not fully apply it. If he had done so he would have added a much larger amount than \$59,255.05, namely, the difference between \$151,651.67, being the amount of the taxpayer's accounts receivable at the end of the year, before its write-off of \$52,879.50 for bad debts, and the cost of the merchandise content proportionate to it, less an allowance of 15 per cent of \$151,651 for bad debts, which amount would have been in excess of \$90,000. It might, perhaps, not be fair to say that in adding \$74,071.93 to the taxpayer's income less his allowance of \$14,778.87 rather than the larger sum referred to the Minister recognized the propriety of the taxpayer's write-off of \$52,879.50 for bad debts, but that is the effect of what he did and, to that extent, the Minister applied a modification of the accrual basis system of accounting to the taxpayer's business. But even this modification shows a profit for the year that the taxpayer did not, in fact, receive during such year.

I now proceed to refer in greater detail than I have done to the reasons that led Mr. Punchard to his opinion that the accrual basis system of accounting is not appropriate to the taxpayer's business and its accounts. He drew attention to the fact that in each year the taxpayer incurred costs in the purchase of merchandise and paid commissions in respect of its sales but had to wait a long time before the instalment payments equalled the amount of its merchandise cost and commission payments. There was thus an interest cost that ought to be charged as an expense but the accrual basis system of accounting disregarded this interest factor.

The system was also defective in that it showed in respect of the taxpayer's accounts receivable at the end of the year a so-called profit that by reason of the nature of the accounts cannot fairly be described otherwise than as an anti-

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icipated profit. And, as Mr. Punched put it, "the accountant, as a matter of principle—which is very much a part of his training—abhors any anticipation of profit". This is as it should be. When an accountant shows a profit from a business there ought to be something to show for the profit shown that is worth somewhere within reach of the amount shown, so that it can be used for the purposes for which a profit is ordinarily used. The Minister's addition of \$59,255.08 to the amount reported by the taxpayer does not meet this requirement. It was not an existing profit in 1945 but only an anticipated one. Liabilities cannot be met or dividends paid with such an anticipated profit consisting of accounts receivable of uncertain value that cannot be discounted.

I again use the example of the \$29.90 sale by way of illustration. The evidence is that in the year of the sale \$8 is paid or incurred for its merchandise content and \$10.30 by way of commissions making a total of \$18.30 and leaving \$11.60 which amount is subject to its proportion of shipping and delivery costs and overhead and office expenses including the cost of collection. The \$18.30 for merchandise and commissions is all paid or incurred before the weekly instalments are received and there cannot be any profit in respect of the sale available for any purpose until after sufficient instalment payments have been made to cover the cost of the merchandise content of the sale, the commissions paid for its acquisition and the proper proportion of the costs and expenses referred to. But the evidence shows that this does not happen in the year of the sale. For example, as I have pointed out, in respect of the sales of \$467,170.80 in 1945, the sum of \$151,651.67 remained unpaid at the end of the year and the sum of \$73,863.01 still remained unpaid at the end of 1946. How then could it fairly be said that the amount of \$151,651.67, or \$98,778.87 after the write-off of \$52,878.50, represented an item of taxable income, meaning thereby net profit or gain, received by the taxpayer in 1945, which it had improperly excluded from its tax returns for that year? The question answers itself in the negative. There was certainly no existing profit out of which it could pay income tax if it were called upon to do so and it ought not to be required to borrow money to pay income tax on what was at the time only an anticipated profit realizable

in the future only to the extent of the success that might attend the taxpayer's efforts to collect the unpaid instalments.

But Mr. Punchard's basic reasons for his opinion seem to me to be conclusive. The evidence establishes that the taxpayer's accounts receivable are, at the time of their receipt, of uncertain value. They cannot be discounted and they are saleable only for a small percentage of their face amounts. Mr. Soren said that he would not pay more than 15 or 20 per cent for all of them. Moreover, and this is a most important factor, such value as they may have in the future is contingent on the success of the taxpayer's intensive and costly efforts to collect them. And it is certain that if its collection efforts were not made or should be relaxed the instalment payments would cease or fall off. Approximately 80 per cent of the taxpayer's office expense is incurred in the collection of its unpaid instalments. While the large cost of collection is, no doubt, taken into account as a factor in the determination of the sale price, this factor should also be taken into account in determining the real profit content of the unpaid instalments. A profit shown by taking the amount of the gross sales into income and deducting therefrom the cost incurred up to the date of the sale without taking into account the cost of collecting the unpaid instalments necessarily incurred after the date of the sale is not a true profit.

There are really two aspects of the problem. If, for example, the taxpayer had ceased business at the end of 1945 its accounts receivable would have had little, if any, value. They could not have been discounted and it is extremely doubtful that anyone would have bought them at all. Mr. Soren's statement that he would not pay more than 15 or 20 per cent for all the taxpayer's accounts would not be applicable to the assumed situation. It would be astonishing if they would have been worth more than the amount of the cost of the merchandise content proportionate to them which the taxpayer left in its income for 1945 in the manner described earlier. How then could it possibly have been said that the taxpayer's accounts receivable at the end of 1945 constituted a receipt by it during the year of \$59,255.05 of net profit or gain over and above the amount reported by it? It certainly did not. The negative answer

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becomes even more emphatic when it is remembered that of the \$151,651.67 of accounts receivable at the end of 1945 only \$77,788.66 was collected in 1946, and then only by reason of the collection effort made in 1946, and \$73,863.01 remained uncollected.

Now let us look at the other aspect of the problem with the taxpayer continuing in business after 1945. Then its accounts receivable at the end of 1945 would acquire value but only by reason of its intensive efforts to collect them. But such value would be acquired in a year subsequent to that of their receipt and as the result of collection efforts involving a substantial expenditure in such subsequent year. Thus it is apparent that the gross profit content of the instalments in respect of 1945 sales remaining unpaid at the end of 1945 is contingent on the success of expensive collection efforts to be made subsequently to 1945. It seems to me that if a system of accounting is to produce a true computation of the profit of a business such as that of the taxpayer it ought to take the factor which I have just referred to into proper account. The accrual basis system does not do so.

The real fact is that the taxpayer is engaged in two activities; it sells books and magazine subscriptions at a price which has taken into account the risky factors of such a business and it runs an intensively organized collection office. Its profit on the sale of its merchandise is contingent on the success of its collection efforts. Without such success there would not be any profit from the sale of the merchandise. On this point the evidence is conclusive. This led Mr. Punchard to his statement that he could not reconcile with good accounting the practice of giving full value to the amount of the taxpayer's accounts receivable at the end of the year when it was plain that such value as they might have was contingent on the success of the taxpayer's collection efforts to be made subsequently to the year of their receipt and necessarily involving a substantial expenditure in the year of its efforts and also subject to considerable loss even after its intensive and costly collection efforts.

Thus, in respect of the taxpayer's sales in 1945, it would be more reasonable and more consistent with sound accounting to take the gross profit content of the instalments remaining unpaid at the end of the year, that is to say, the

amount of the payments less the cost of the merchandise content proportionate to them, into income for the year in which they were received by the taxpayer as the result of its successful efforts to collect them and in which its costs of collection were incurred, rather than to take them into income for 1945 when their profit content was contingent on the success of future collection efforts and its amount could not be determined with any substantial certainty.

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I am, therefore, in complete agreement with Mr. Punchard's opinion that the accrual basis system of accounting is inappropriate to the taxpayer's business. Its use, if applied for 1945, would take the amount of the taxpayer's gross sales in the year into income for the year, deduct therefrom the amount of its expenses laid out or incurred during the year and show the balance, less an arbitrary allowance of 15 per cent for bad debts, as the net profit received by it during the year. But the system would fail to take into account the nature of the taxpayer's business, the uncertain nature and contingent and doubtful value of its accounts receivable, the delay in the payment of the instalments, the intensive and costly efforts necessary to collect them in a year or years subsequent to 1945, and the certainty of substantial loss, notwithstanding such efforts. Thus, the use of the system would show a profit for the year that did not in fact exist. Certainly, it would not represent a profit received by the taxpayer during the year. What I have said applies also to the modification of the accrual basis system, which the Minister applied when he made his assessment.

I am also in agreement with the opinion of the accountancy experts that the instalment system of accounting is appropriate to the taxpayer's business. In respect of the sales in 1945 it properly excludes from the computation of income for 1945 the unrealized gross profit content of the instalment payments remaining unpaid at the end of the year and takes such profit content as may be realized subsequently to 1945 into income for the year in which the instalments are successfully collected as the result of the taxpayer's collection efforts, and their gross profit content may fairly be regarded as profit received by it during such year. It follows, of course, that under the instalment system only the gross profit content of the payments received by the taxpayer during 1945 is taken into income for the year,

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subject, of course, to the fact that the amount of the cost of the merchandise content proportionate to the amount of the instalment payments remaining unpaid at the end of the year after the write-off for bad debts against the amount of the unpaid instalments remains included in the income for the year in the manner described. I am convinced that the instalment system of accounting produces a much more nearly accurate computation of the taxpayer's profit than the accrual basis system would do.

For these reasons I have come to the conclusion that the Minister's assessment of the taxpayer for 1945 was erroneous in fact. It would be unrealistic, and contrary to fact, to say that the amount of \$59,255.08 which the Minister added to the amount of taxable income reported by the taxpayer for 1945 represented a profit received by it during that year within the meaning of section 3 of the *Income War Tax Act*. The added amount was, therefore, improperly included in the assessment.

What I have said about the assessment for 1945 applies, *mutatis mutandis*, to the assessments for 1946, 1947 and 1948. For reasons similar to those which I have stated I find them all erroneous in fact.

These findings really dispose of the appeals herein in favor of the taxpayer unless there is some provision in the *Income War Tax Act* or some rule of income tax law that in a case such as the present prohibits the use of the instalment system of accounting and compels the use of the accrual basis system. Before dealing with the legal contentions put forward by counsel I should refer briefly to some matters of a particular nature. It was urged by counsel for the Minister that the result produced by the instalment system of accounting as applied by the taxpayer was anomalous in that it showed a loss by the taxpayer of \$12,014.04 for 1945 whereas it had had a profit of \$23,203.09 for 1944, notwithstanding the fact that it did more business in 1945 than it had done in 1944, namely, that its gross sales in 1945 amounted to \$467,170.80 whereas in 1944 they had come to only \$362,888.26. The answer to the comment is obvious, namely that for 1944 the taxpayer had made its tax returns according to the accrual basis system of accounting whereas for 1945 it based them on the instalment system. There was bound to be a difference of result due to the fact

that in 1944 the taxpayer had taken into income for 1944 items that ought to have been excluded from its computation of income for 1944 and included in its computation of income for 1945. If the taxpayer had changed over to the instalment system in 1944 instead of in 1945 it would have excluded from its computation of income for that year the unrealized gross profit content of the instalments remaining unpaid at the end of 1944 in respect of its 1944 sales instead of including it, as it did under the accrual basis system, and paying income tax on a profit which it had not in fact received during 1944. Moreover, the result in 1945 would have been that the taxpayer would have taken into income for that year not only the gross profit content of the payments received by it during the year in respect of its 1945 sales but also the gross profit content of the payments received by it during the year in respect of its 1944 sales. The result in such case would have been that in 1944 its taxable income would have been less than that on which it had paid tax and that in 1945 it would have had a taxable income instead of a loss. The fact is that the taxpayer had paid tax for 1944 on a so-called profit that it had not received in 1944 but had in part received in 1945. The fair way to look at the matter is to do so over a period of years. The results of the application of the system for 1946 illustrate what I mean. During that year the taxpayer received a profit of \$15,516.86 whereas, as I have mentioned, it had had a loss of \$12,014.04 for 1945, notwithstanding the fact that it did less business in 1946 than it had done in 1945, namely, that its gross sales in 1946 amounted to \$399,521.40 whereas in 1945 they had come to \$467,170.80. Here again the reason is clear, namely, that in 1946 the taxpayer took into income for the year not only the gross profit content of the payments received by it during the year in respect of its 1946 sales but also the gross profit content of the \$77,788.66 of payments received by it during the year in respect of its 1945 sales which were the result of its successful efforts in 1946 to collect such payments. There is thus no merit in the contention of counsel based on the result shown for 1945 by the instalment system as compared with that shown for 1944 by the accrual basis system.

Nor is there any substance in the suggestion by counsel for the Minister in the course of his cross-examination of

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the accountancy experts that the application of the instalment system of accounting to the taxpayer's business and its accounts would reduce the amount of its income tax liability. If it should do so by reason of the fact that the system more nearly accurately reflects the taxpayer's income position than the accrual basis system or the Minister's modification of it would do there could not be any lawful objection to such a result. But the fact is that the use of the system does not produce any such result. There is no diminution of the taxpayer's taxable income by reason of its application of the instalment system of accounting. Mr. Punchard was emphatic in his statement to that effect. And Mr. Hutchison made it clear that all that happens is a change in the timing of the incidence of the applicable tax. How this happens has really been already fully explained. For example, in accordance with the principles of the system, the taxpayer excluded from its computation of income for 1945 the unrealized gross profit content of its accounts receivable at the end of 1945, but, as I have pointed out, brought into income for 1946 the gross profit content of the \$77,788.66 of payments received by it during 1946 in respect of its 1945 sales and into income for 1947 the gross profit content of the payments received by it during 1947 in respect of its 1946 or 1945 sales, and so on. In other words, the gross profit content of payments received by the taxpayer during the year is taken into income for the year in which they are received, regardless of whether the sales in respect of which the payments were made were sales made in the year of the payment or in a previous year. This, in my opinion, is as it should be, for the gross profit content of the payment received was an item of taxable income received by the taxpayer in the year of the receipt of the payment, within the meaning of section 3 of the *Income War Tax Act*, and was not an item of taxable income received by it during any previous year. Thus, the use of the system does not reduce the amount of the taxpayer's income. All that it does is to allocate it to the year in which it properly belongs as being net profit or gain received by the taxpayer during such year within the meaning of the governing Act.

And there cannot be a valid objection to the instalment system of accounting on the ground that its use in Canada

is new and that this is the first case in which the appropriateness of its application in the computation of the taxable income falls to be considered. The system is not new in the United States. There its use has been recognized since 1924. Section 453(a) of the *Internal Revenue Code* of 1954 of the United States provides:

453 (a) Dealers in Personal Property—Under regulations prescribed by the Secretary or his delegate, a person who regularly sells or otherwise disposes of personal property on the instalment plan may return as income therefrom in any taxable year that portion of the installment payments actually received in that year which the gross profit, realized or to be realized when payment is completed, bears the total contract price.

It will be seen that the use of the instalment system of accounting is recognized for all sales of personal property for a price payable by instalments. The evidence is that the taxpayer's parent in New York had used the instalment system for some years so that it was not unreasonable that the taxpayer should desire to keep its accounts according to the same system and, as I have stated, it decided to do so after Mr. Punchard had recommended the change-over after he had discussed the matter with the Toronto Office of the Department.

While it is true that the taxpayer is the only person that has adopted the system in Canada, it was Mr. Punchard's opinion that the Department's opposition to the system has discouraged its use and that, if there had not been such opposition, other persons would have adopted it.

Counsel for the Minister took objection to the taxpayer's exclusion of the amounts of its accounts receivable from its computation of income for the year on the ground that it constituted the setting up of a reserve or contingent account contrary to the prohibition of section 6(d) of the *Income War Tax Act*. In his cross-examination of the accountancy experts he attempted to obtain an admission from them that the deferring of the accounts receivable as income was a reserve but both Mr. Hutchison and Mr. Punchard were clearly of the opinion that there was no question of any reserve or contingent account. They were, in my opinion, clearly right. Section 6(1)(d) of the Act provides as follows:

6. In computing the amount of the profits or gains to be assessed, a deduction shall not be allowed in respect of

(d) Amounts transferred or credited to a reserve, contingent account or sinking fund, except such amount for bad debts as the Minister may allow and except as otherwise provided in this Act;

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The section does not apply to what the taxpayer did. What it prohibits is the deduction from what would otherwise be assessable profits or gains of any amount transferred or credited to a reserve, contingent account or sinking fund, except as permitted. Here there was no such transfer or credit. What the taxpayer did was to exclude from its computation of income for the year the unrealized gross profit of its accounts receivable at the end of the year on the ground that such gross profit did not constitute income for the year that could enter into the computation of profits or gains to be assessed. It was not a case of deduction from income at all. The excluded unrealized gross profit content was not income for the year. Both Mr. Hutchison and Mr. Punchard were clearly of the opinion that there was no transfer or credit of anything to a reserve or contingent account and I am in full agreement with them. Moreover, as Mr. Punchard explained, there is no place in the instalment system of accounting for any reserve or contingent account for bad debts. The two ideas are inconsistent with one another. There cannot be any provision in the system for setting aside any amount for bad debts, for the unpaid instalments, which might become bad debts, are not taken into income at all, except that the cost of the merchandise content proportionate to them, by not being charged as an expense, is left included in income in the manner earlier described. What happens with regard to bad debts, as I have already explained, is that after certain debts have been determined to be bad their amount is written off against the amount of the gross sales for the year and all that is written off against income for the year is the amount of the cost of the merchandise content proportionate to the amount of the bad debts written off, for that is all that was left included in the income proportionately to the amount of the accounts before they were written off as bad. Thus, I find that the taxpayer's use of the instalment system did not result in any violation of the prohibitions of section 6(d).

But the main argument of counsel for the Minister was that the taxpayer should have applied the accrual basis system of accounting to its accounts and the computation of its taxable income. His submission, as I summarize it, was that the expression "net profit or gain . . . received", as used in Section 3 of the *Income War Tax Act*, was wide

enough to include receivables as well as receipts, that since the inception of the Act in 1917 tax returns had been made to the Department according to the accrual basis system of accounting and that prior to 1945 the taxpayer had made its returns according to that system, that the Department had accepted that system and its long practice in doing so lends validity and a measure of law to the fact that the accrual basis system is a proper and the most appropriate one to use to determine net profit, unless, as counsel conceded, the taxpayer can satisfy the Court that he has used a more appropriate system, that the taxpayer ought, therefore, to have brought into income for the year the full amount of the instalments in respect of its sales in the year, that over a period of years it knew or should have known the percentage of its likely loss from bad debts and could have protected itself in respect of its accounts receivable by deducting the appropriate amount for bad debts to the extent that the Minister would allow such deduction, and that it could also work out an estimate of the collection expenses that would have to be incurred to collect the unpaid instalments.

There are several flaws in the argument thus put forward. It is not strictly correct to say that generally tax returns have been made to the Department according to the accrual basis system, for they have been made in a great many cases, possibly the majority, on the cash basis system. It is mainly in the case of trade accounts that the accrual basis has been used but, as Lord Greene M.R. pointed out in *W. S. Try, Ltd. v. Johnson*¹, it is really an exception to the general rule that tax is collected on the basis of the receipts of a business that trade debts are brought into income. The general rule is, as put by Rowlatt J. in *Leigh v. Commissioners of Inland Revenue*² that, "receivability without receipt for the purpose of Income Tax is nothing at all": *Vide* also *Dewar v. Commissioners of Inland Revenue*³ to the same effect. Moreover, the Department has not hesitated to depart from the accrual basis system when it has suited its purpose to do so: *vide*, for example such cases as *Capital Trust Corporation Limited v. Minister of National Revenue*⁴; *Trapp v. Minister of National Revenue*⁵. But

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¹ [1946] 1 All E.R. 532 at 539.

³ (1935) 19 T.C. 561 at 577.

² (1927) 11 T.C. 590 at 595.

⁴ [1937] S.C.R. 192

⁵ [1946] Ex. C.R. 245.

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even if its practice had been uniform that would not have determined the matter. There has been too much thinking on the part of the Department that its permission, even in the absence of statutory authority, is necessary to the validity of a particular system of accounting. What is basically to be determined under the *Income War Tax Act* is the amount of "net profit or gain received" by the taxpayer during the year. It was established by the House of Lords in *Sun Insurance Office v. Clark*¹ that "the question of what is or is not profit or gain must primarily be one of fact, and of fact to be ascertained by the tests applied in ordinary business". Thus, what is to be determined here is, not whether the Department has accepted the accrual basis system of accounting and rejected the instalment system, but rather which system more nearly accurately reflects the taxpayer's income position. I have already answered this question in detail. The Court is not called upon in this case to express any opinion on the appropriateness of the accrual basis of accounting to the business of an ordinary trader and ordinary trade accounts. But that is not the situation here. Here, as the evidence substantiates, the taxpayer's accounts were very different from ordinary trade accounts. And the Court has had the benefit of the uncontradicted opinions of two chartered accountants of experience, carefully expressed and exhaustively tested on cross-examination, that the accrual basis system of accounting is inappropriate to the taxpayer's business and its accounts and that the instalment system is appropriate and more accurately reflects the taxpayer's income position than any other system would do.

I have already, earlier in these reasons, stated that there is no merit in the submission made by counsel regarding the steps that the taxpayer might have taken to protect itself against loss in respect of its accounts receivable. That also applies to the suggestion that the taxpayer could estimate its collection costs. At best, the estimates thus suggested would have been of a speculative and arbitrary nature and subject to adverse comment similar to that made by Lord Greene M.R. in the *W. S. Try Ltd.* case (*supra*) in respect of the amount there discussed.

¹ [1912] A.C. 443.

In support of his argument counsel for the Minister relied upon the decision in *Kent v. Minister of National Revenue*¹ in which Mr. Fisher accepted and adopted, *inter alia*, the following statement, taken from Mr. R. G. H. Smail's work on *Accounting Principles and Practice*, at page 412:

Income is realized just as fully when an asset is sold for a promise of cash as when it is sold for cash down.

Mr. Hutchison did not agree that this statement was applicable in the case of sales such as those made by the taxpayer and Mr. Punchard also disagreed with it. My comment on it will be brief. It may well be that the statement is justifiable in cases where the promise to pay is readily convertible into cash, as appears to have been done in the *Kent* case, but to say that it is applicable to the kind of promises to pay made to the taxpayer in the present case is, to put it bluntly, to make a statement that is wholly devoid of reality and quite untrue.

Counsel for the Minister was in error in assuming that under the instalment system of accounting the taxpayer excluded from income for the year the whole amount of its accounts receivable at the end of the year as not having any value. That is not correct. What was excluded was the unrealized gross profit content of the unpaid instalments. But, as I have explained earlier, the unpaid instalments at the end of the year were valued at the amount of the cost of the merchandise content proportionate to them and the amount of such valuation was included in the taxpayer's income for the year in the manner which I have fully described. That is certainly not far from their value at the end of the year. Certainly, it is more than anyone would then have paid for them.

This brings me to my conclusion. I have not been able to find any prohibition, express or implied, in the *Income War Tax Act* against the use by the taxpayer of the instalment system of accounting in the computation of its income. In my opinion, its use results in a more nearly accurate computation of the taxpayer's taxable income, within the meaning of section 3 of the governing Act, than the system applied by the Minister would do.

¹ (1952) 6 Tax A.B.C. 181.

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It follows that the assessments appealed against must be set aside. There will, therefore, be judgment that the taxpayer's appeals against its income tax assessment for 1945 and its excess profits tax assessments for 1945, 1946 and 1947 are allowed and that the Minister's appeal from the decision of the Income Tax Appeal Board is dismissed. The taxpayer will be entitled to its costs of the appeals but since they were heard together there will be only one counsel fee.

Judgment accordingly.

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BETWEEN:

LEONARD A. PARMENTER SUPPLIANT;

AND

HER MAJESTY THE QUEEN RESPONDENT.

Crown—Petition of Right—Damages—Petition filed after expiration of twelve months from time of damages—The Highway Traffic Act of Manitoba, R.S.M. 1940, c. 93, s. 84(1)—Exchequer Court Act, R.S.C. 1952, c. 98, s. 31—Provincial limitation of action applicable—No estoppel against requirement or operation of statute.

The suppliant brought a petition of right for damages for personal injuries alleged to have been suffered by him at Winnipeg in Manitoba on December 18, 1947, through having been struck by a motor vehicle driven by a member of the Royal Canadian Air Force. It was alleged that the injuries resulted from the negligence of the driver while acting within the scope of his duties. The petition was not filed in this Court until November 19, 1953. It was alleged in paragraph 8 of the statement of defence that the suppliant's action was barred by reason of the fact that it was not brought until after the expiration of twelve months from the time when his damages were sustained as required by section 84(1) of *The Highway Traffic Act* of Manitoba, R.S.M. 1940, Chapter 93, and section 31 of the *Exchequer Court Act*, R.S.C. 1952, Chapter 98. It was alleged in the suppliant's reply that the respondent was estopped from asserting the facts upon which the defence alleged in paragraph 8 of the statement of defence was based by reason of the representation made to the suppliant by officers and servants of the respondent that his injury was pensionable and that an action need not be commenced for compensation for it. Counsel for the respondent applied for judgment that the suppliant was not entitled to any of the relief sought in the petition of right.

Held: That the provincial laws relating to prescription and the limitation of actions referred to in section 31 of the *Exchequer Court Act* of which the Crown may avail itself in a petition of right are those of the province in which the cause of action arose that are in force in such province at the time when the Crown is called upon to make its defence to the petition of right and that the respondent was entitled, in the

absence of a valid reason to the contrary, to rely upon section 84(1) of *The Highway Traffic Act* of Manitoba as a bar to the suppliant's proceedings.

2. That there cannot be an estoppel to defeat the requirements of a statute or prevent its operation.
3. That representations of the kind alleged in the reply cannot operate as an estoppel to prevent the operation of a statutory limitation.
4. That the suppliant was not entitled to any of the relief sought in the petition of right.

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MOTION for judgment that suppliant not entitled to relief sought in petition of right.

The motion was heard before the President of the Court at Ottawa.

D. S. Maxwell for respondent.

R. H. McKercher for suppliant.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (January 8, 1957) delivered the following judgment:

On November 13, 1956, on the application of counsel for the respondent and after hearing counsel for the suppliant, I delivered judgment herein whereby it was ordered and adjudged that the suppliant was not entitled to any of the relief sought in his petition of right and that the respondent was entitled to costs and I stated that I would deliver reasons for judgment later. These now follow.

The suppliant's petition was for damages for personal injuries alleged to have been suffered by him at Winnipeg in Manitoba on December 18, 1947, through having been struck by a motor vehicle driven by a member of the Royal Canadian Air Force while acting within the scope of his duties. It was alleged that the suppliant was at that time a member of the Royal Canadian Air Force stationed at Winnipeg and that his injuries resulted from the negligence of the driver of the said vehicle. While the injuries were alleged to have been suffered on December 18, 1947, the petition of right was not filed in this Court until November 19, 1953.

In the statement of defence, which was filed in this Court on February 25, 1955, the allegations of fact in the suppliant's petition were denied and it was alleged in paragraph

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8 that his proceedings were barred by reasons of the fact that they were not brought until after the expiration of twelve months from the time when his alleged damages were sustained as required by subsection (1) of section 84 of *The Highway Traffic Act* of Manitoba, R.S.M. 1940, Chapter 93, as amended, and section 31 of the *Exchequer Court Act*, R.S.C. 1952, Chapter 98.

Section 84 (1) of *The Highway Traffic Act* of Manitoba, which was in force at the date of the suppliant's injury and at the date of the filing of the statement of defence, provides:

84. (1) No action shall be brought against a person for the recovery of damages occasioned by a motor vehicle after the expiration of twelve months from the time when the damages were sustained.

and section 31 of the *Exchequer Court Act* provides:

31. Subject to any Act of the Parliament of Canada, the law relating to prescription and the limitation of actions in force in any province between subject and subject apply to any proceeding against the Crown in respect of a cause of action arising in such province.

In the suppliant's reply the allegations of fact in the statement of defence were denied and it was alleged that the respondent was estopped from asserting the facts upon which the defence in paragraph 8 of the statement of defence was based by reason of the representation made to the suppliant by officers and servants of the respondent that the injury to the suppliant was pensionable and that an action need not be commenced for compensation for it.

In my opinion, it is established law that the provincial laws relating to prescription and the limitation of actions referred to in section 31 of the *Exchequer Court Act* of which the Crown may avail itself in a petition of right are those of the province in which the cause of action arose that are in force in such province at the time the Crown is called upon to make its defence to the petition of right. It was so held in *Zakrzewski v. The King*¹. *Vide* also *Ivey v. The Queen*². Consequently, the respondent was entitled, in the absence of a valid reason to the contrary, to rely upon section 84(1) of *The Highway Traffic Act* of Manitoba as a bar to the suppliant's proceedings.

¹ [1944] Ex. C.R. 163 at 169.

² [1954] Ex. C.R. 200.

It was contended for the suppliant, however, that the respondent was estopped from pleading the statutory limitation by reason, as alleged in the reply, of the representation made to the suppliant by officers and servants of the respondent that the suppliant's injury was pensionable and that an action need not be commenced for compensation for it.

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Thus the only issue in this case is whether the suppliant's plea of estoppel is valid. In my opinion, it is not.

It is well settled that there cannot be an estoppel to defeat the requirements of a statute or prevent its operation: *Maritime Electric Company, Limited v. General Dairies, Limited*¹; *St. Ann's Island Shooting and Fishing Club Ltd. v. The King*²; *The King v. Cowichan Agricultural Society*³.

Nor can a person be estopped from alleging the invalidity of that which a statute has, on grounds of public policy, enacted shall be invalid: *In re a Bankruptcy Notice*⁴, per Atkin L.J. at page 97.

And, similarly, in my judgment, representations of the kind alleged in the reply cannot operate as an estoppel to prevent the operation of a statutory limitation: *Hewlett v. London County Council*⁵; *Norwell v. City of Toronto*⁶; *Ripley v. Merchants Casualty Insurance Co. Limited*⁷.

That being so, it is not necessary to refer to the other arguments submitted by counsel for the respondent.

Consequently, the respondent was entitled to rely on the statutory limitation of the suppliant's claim prescribed by section 84(1) of *The Highway Traffic Act* of Manitoba and since the suppliant's action was not brought until after the expiration of twelve months from the time when his injuries were alleged to have been sustained there was no course open to the Court other than the judgment delivered.

¹ [1937] A.C. 610.

² [1950] Ex. C.R. 185;
 [1950] S.C.R. 211.

³ [1950] Ex. C.R. 448.

⁴ [1924] 2 Ch. 76.

⁵ (1908) 72 J.P. 136.

⁶ (1925) 28 O.W.N. 224.

⁷ (1930) 37 O.W.N. 446.

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BETWEEN:
THE ROYAL TRUST COMPANY APPELLANT;
AND
THE MINISTER OF NATIONAL }
REVENUE } RESPONDENT.

Revenue—Income tax—The Income War Tax Act, R.S.C. 1927, c. 97, s. 6(a)—The Income Tax Act, 1948, S. of C. 1948, c. 52, ss. 3, 12(1)(a)—Deductibility of social club admission fees and membership dues paid for senior officers—Whether payments made in accordance with ordinary principles of commercial trading or well accepted principles of business practice—Whether payments made or incurred for the purpose of gaining or producing income from the business—Admission fees and membership fees recurring expenses of appellant.

The appellant had its head office in Montreal and branches and agencies in various parts of Canada. Its business covered a wide range of activity of a fiduciary and personal nature, of which the most important was that of acting as executor and trustee of estates and trusts. It used several means of getting business and gaining or producing income from it but believed that personal contacts by its officers produced the best business results. It required its senior executive officers and branch managers and their assistants to develop personal contacts with those persons from whom it might reasonably expect trust company business. It was part of its policy to require such officers to take an active part in the community life of the locality in which they operated so that when one of its officers was appointed to a position which called for the maintenance or promotion of its business he was required to join a social club in his community, take an active part in community organizations and campaigns, join a service club and the local chamber or board of trade and generally make himself known in the community. The appellant paid the social club admission fees and annual membership dues of such officers. It had followed this practice for many years but had never claimed a deduction of the amounts so paid until it did so in its income tax return for 1952. The Minister disallowed the deduction and the appellant appealed to the Income Tax Appeal Board which dismissed its appeal and the appellant appealed from its decision to this Court.

Held: That the principles for the computation of income are not defined in the Act and that it must be ascertained on ordinary principles of commercial trading or well accepted principles of business practice. *Gresham Life Insurance Society v. Styles* [1892] A.C. 309 at 316 followed.

- 2. That the extent of the prohibition of the deduction of an outlay or expense under section 12(1)(a) of *The Income Tax Act* is less than that of a disbursement or expense under section 6(a) of the *Income War Tax Act*.
- 3. That in a case under *The Income Tax Act* the first matter to be determined in deciding whether an outlay or expense is outside the prohibition of section 12(1)(a) of the Act is whether it was made or incurred by the taxpayer in accordance with the ordinary principles of com-

mercial trading or well accepted principles of business practice. If it was not, that is the end of the matter. But if it was, then the outlay or expense is properly deductible unless it falls outside the expressed exception of section 12(1)(a) and, therefore, within its prohibition.

4. That the payments of admission fees and annual membership dues made by the appellant were made in accordance with principles of good business practice for trust companies.
5. That, while section 12(1)(a) requires that an outlay or expense must, in the case of a taxpayer engaged in a business, have been made or incurred by him for the purpose of gaining or producing income from his business in order to come within the exception specified in the section, it is not necessary that the outlay or expense should have resulted in income. *Consolidated Textiles Limited v. Minister of National Revenue* [1947] Ex. C.R. 77 at 81 followed.
6. That in a case under *The Income Tax Act* if an outlay or expense is made or incurred by a taxpayer in accordance with the principles of commercial trading or accepted business practice and it is made or incurred for the purpose of gaining or producing income from his business its amount is deductible for income tax purposes.
7. That the payments made by the appellant were made by it for the purpose of gaining or producing income from its business.
8. That the connection between the appellant's gain or production of income from its business and the payments made by it was not remote.
9. That, although the admission fees were paid once and for all for the officers for whom they were paid, they were recurring expenses so far as the appellant was concerned.
10. That the appeal must be allowed.

APPEAL from decision of the Income Tax Appeal Board.

The appeal was heard before the President of the Court at Montreal.

H. H. Stikeman, Q.C. and *J. N. Turner* for appellant.

Maurice Paquin, Q.C., and *Francois Auclair* for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (January 22, 1957) delivered the following judgment:

This is an appeal from the decision of the Income Tax Appeal Board, *sub nom. No. 262 v. Minister of National Revenue*¹, dated May 4, 1954, dismissing the appellant's appeal against its income tax assessment for 1952.

In its income tax return for that year the appellant claimed, under the head of "Sundries", that it was entitled,

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¹ (1955) 13 Tax A.B.C. 33.

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in computing its taxable income to deduct as an expense the sum of \$9,527.29 which it had paid to various social clubs in payment of the admission fees and annual membership dues of certain officers who were members of such clubs. Of this amount \$1,200 was for admission fees and \$8,327.29 annual membership dues. In assessing the appellant the Minister, as appears from the notice of reassessment, dated September 21, 1954, and mailed February 8, 1954, added the sum of \$9,527.29 to the amount of taxable income reported by it. The appellant objected to the assessment but the Minister confirmed it. The appellant then appealed to the Income Tax Appeal Board which dismissed its appeal. It is from that decision that the appeal to this Court is brought.

The appeal involves consideration of sections 12 (1)(a) and 12(1)(b) of *The Income Tax Act*, Statutes of Canada 1948, Chapter 52, which provide as follows:

12. (1) In computing income, no deduction shall be made in respect of
- (a) an outlay or expense except to the extent that it was made or incurred by the taxpayer for the purpose of gaining or producing income from property or a business of the taxpayer,
 - (b) an outlay, loss or replacement of capital, a payment on account of capital or an allowance in respect of depreciation, obsolescence or depletion except as expressly permitted by this Part.

The issue in the appeal is whether the payments made by the appellant constitute an outlay or expense made or incurred by it for the purpose of gaining or producing income from its business within the meaning of the exception expressed in section 12(1)(a) of the Act and, therefore, outside its prohibition. The issue is a novel and important one. This is the first case in which the deductibility of such an expense falls to be considered by this Court and the amount involved over a period of years if the appellant succeeds in its appeal will be very large.

The facts are not in dispute. Evidence on behalf of the appellant was given by Mr. J. Pembroke, its president, Mr. C. Harrington, its assistant general manager and manager of its Toronto branch and Mr. A. Gilmour, its financial adviser and tax consultant. Counsel for the respondent did not call any witnesses.

The appellant has its head office at Montreal and has 16 branches and 3 agencies, 1 branch being in London,

England, and the other branches and the three agencies being in various parts of Canada from Newfoundland to British Columbia. Its largest branch is in Montreal and its next largest branches are in Toronto and Vancouver.

The appellant's business, as its name implies, covers a wide range of activity of a fiduciary and personal nature. It gives assistance in the planning and preparation of wills and trust deeds and supervises and manages estates and trusts; it acts as trustee of pension plans and under bond and debenture issue indentures; it acts as agent for corporations in the transfer and registration of shares; it manages corporate and personal investment portfolios; it acts as agent in the purchase and sale of real estate and manages properties; and it accepts deposits from its customers and clients. The most important part of its business is that of acting as executor and trustee of estates and trusts, which was described as the "bread and butter" part of its business, and its next most important activities are those of acting as trustee under bond and debenture issue indentures and as agent for corporations for the transfer and registration of their shares.

The appellant uses several means for getting business and gaining or producing income from it. While it is in somewhat the same position as lawyers and accountants it has one advantage over them in that it is free to advertise and it uses this means extensively. But its major effort to attract business is based on its belief, as the result of many years of experience, that personal contacts by its officers produce the best business results. The appellant, therefore, requires its senior executive officers and such other of its officers as are charged with the maintenance and promotion of its business, such as, for example, its branch managers and their assistants, to take every opportunity to develop personal contacts with those persons from whom it might reasonably expect trust company business. It is part of its policy to require such officers to take an active part in the community life of the locality in which they operate. Consequently, when one of its officers is appointed to a position which calls for the maintenance or promotion of its business he is informed that he is required to join a social club in his community, take an active part in community organizations and campaigns such as Red Feather and other community welfare drives, join a service club and the local chamber of

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commerce or board of trade and generally make himself known in the community. He is to be regular in his attendance at club meetings and functions, take his part in club committee work and serve as a club officer if required to do so.

The details of the appellant's policy are carefully worked out. It decides which of its officers should join social clubs. They are those that would be likely to come into personal contact with clients or prospective clients, such as, for example, in addition to senior executive officers, branch managers and their assistants, trusts and estates officers, supervisors of pension funds, supervisors of investment folios, stock transfer officers and managers of real estate. The appellant also designates the clubs to which its officers should belong and takes the necessary steps for their introduction and admission.

The appellant's branches have a large measure of autonomy. Each branch has its own manager and one or more assistant managers and other officers. The branch manager with the advice of his local advisory board exercises his own judgment in matters of detail but, of course, always within the limits of policy established by the head office. It is he who recommends which of his branch officers should be members of social clubs, for it is within his jurisdiction to decide what expenditures should be made. The amount paid for club dues is treated as an item of the cost of the branch operation so that expenditures for membership dues are carefully watched.

The appellant has followed this policy for a great many years but it did not claim a deduction of the amounts paid by it in furtherance of it prior to the claim made in its income tax return for 1952. This was made on the advice of its financial adviser and tax consultant. Mr. Pembroke stated that at the outset the appellant's policy might have been considered as a long term business project but it had been in effect for such a long time and been so successful in its results on a day to day, month to month, and year to year basis that it has become part of the appellant's regular short term policy.

It was in pursuance of this policy and in accordance with its long business practice that the appellant paid the social club admission fees and annual membership dues that are in question in this action. Altogether, in 1952 it paid for

78 officers, the details of which appear in a list filed as Exhibit 2. This shows the names of the clubs, the names of the officers and the positions they hold with the appellant and the amounts paid for admission fees and annual membership dues. As I have already stated, the annual membership dues came to \$8,327.29 and the admission fees to \$1,200. This was for 5 officers who first joined clubs in that year.

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As a general rule the appellant paid the admission fees and annual subscription dues directly to the clubs of which its officers were members. But there might be instances in which the officer paid the fees and dues himself in which case he was reimbursed for the expenditures he had made on the appellant's behalf.

In addition to the amounts in dispute the appellant in 1952 also paid \$395.97 for the annual dues of its officers who were members of service clubs and \$2,398.70 for the annual dues of its officers who were members of chambers of commerce or boards of trade. The details of these payments appear in lists filed as exhibits 3 and 4. The payments to the service clubs, chambers of commerce and boards of trade were allowed as deductions and are not here in issue. Objection was taken to the reception of this evidence on the ground of irrelevancy. But while I agree that the allowance of these payments by the Department does not necessarily clothe it with validity and cannot have any effect on the issue in this appeal, I think that the evidence is admissible as indicative of one of the means used by the appellant for the purpose of gaining and producing income from its business.

The appellant also paid the monthly club accounts of its officers. The deduction of the amounts so paid was allowed by the Department and they are not in issue. I should merely refer to the fact that while membership in the social clubs was intended for the promotion of the appellant's business and the fees and dues were paid for that purpose the officers who were members of them were not precluded from using the club facilities for their own social purposes but it was an understood rule that if they did so they would carefully check the items in the monthly accounts that were personal to themselves and pay such amounts themselves.

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The evidence is conclusive that the appellant's policy has resulted in business for it from which income was gained or produced. Mr. Pembroke belonged to three social clubs in Montreal and one in Ottawa. He used their facilities frequently and discussed business at them. He gave several specific instances of obtaining substantial business for the appellant by reason of being able to invite persons to lunch at one of the clubs and discuss business with them there. His officers frequently reported similar situations. He stated that the appellant's business was largely of a personal and confidential nature and that many persons could not find the time to go to the appellant's office but could go to one of the clubs. To that extent the club, in his opinion, was an extension of the appellant's office facilities. On many occasions a remark made at the club gave him a lead that he could follow up and a discussion there might end up with a will or a trust or a pension fund for the appellant. This did not mean that if he had not been a member of the club he would not have obtained the business. He might have done so but it was not as likely. Mr. Pembroke said that the appellant regarded its policy as an extension of its advertising but attached greater importance to it in that the use of the club facilities resulted in more direct dealing with persons from whom the appellant as a trust company might expect the bulk of its business.

Mr. Harrington's evidence was to the same effect. He was appointed manager of the appellant's Toronto branch and supervisor of its Ontario branches in 1952. Prior to that time he had been in the Montreal branch. He stated that he joined two clubs in Toronto and that the appellant paid his dues there. He found in his first year at Toronto that the fact that he was able to join social clubs there greatly facilitated his start in business. Before he went there steps had been taken to have his name proposed for membership and he was instructed to take an active part in the life of the clubs, meet the members and endeavor to get information that would result in business. He gave specific examples of having obtained profitable business for the appellant through joining the clubs. Soon after he arrived in Toronto he met at one of the clubs, a person whose company had just successfully floated a bond issue and he was able to get

a deposit from him of over a million dollars. One of his officers was able through his membership in a club to obtain about 25 will executor appointments. A luncheon discussion at the club with a lawyer resulted in the management of a \$600,000 investment portfolio. And in his capacity as supervisor of the Ontario branches he had knowledge of business resulting to the appellant from membership in clubs.

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There is no doubt that the appellant considered that its expenditures were in accordance with good business practice. Its experience over a long period was certainly to that effect. According to Mr. Pembroke, it was desirable that in the larger cities its officers should be members of several clubs in order to meet as many persons as possible but it was also vital in the smaller centres that its representative should belong to a club there. Indeed, as Mr. Pembroke put it, his failure to join might do him and the appellant active harm through creating the belief in the community that he was anti-social.

Moreover, the evidence shows that other trust companies, competitors of the appellant, followed the same policy as it does and considered it good business practice to do so. Mr. Pembroke's evidence was to that effect and it was confirmed by Mr. Harrington. As he put it, it was the general opinion of trust companies that it was important and essential and good business practice to have officers in social clubs and pay their club fees and dues. And finally, Mr. Arthur Gilmour, an experienced chartered accountant with the firm of Clarkson, Gordon and Company, expressed the opinion, as an accountant, that the amount paid to the clubs was a proper and necessary deduction in determining the amount of the appellant's profits and gains.

On these uncontradicted facts I proceed to consideration of the principles to be applied. The statutory provision primarily involved is section 12(1)(a) of *The Income Tax Act*, to which I have already referred. For convenience, I repeat its terms:

12. (1) In computing income, no deduction shall be made in respect of
 (a) an outlay or expense except to the extent that it was made or incurred by the taxpayer for the purpose of gaining or producing income from property or a business of the taxpayer.

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This section replaced section 6(a) of the *Income War Tax Act*, R.S.C. 1927, Chapter 97, which provided:

6. In computing the amount of the profits or gains to be assessed, a deduction shall not be allowed in respect of

(a) disbursements or expenses not wholly, exclusively and necessarily laid out or expended for the purpose of earning the income;

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It is clear that the range of deductibility of an outlay or expense under *The Income Tax Act* is greater than that of disbursements or expenses under the *Income War Tax Act*. But there are certain tests of deductibility that are as applicable in the case of the later enactment as they were in the case of the earlier one.

This Court has occasion in several cases under the *Income War Tax Act* to consider what should be the primary approach to the question whether a disbursement or expense was deductible for income tax purposes. I dealt with this question at length in *Imperial Oil Limited v. Minister of National Revenue*¹ and need not repeat what I said there beyond pointing out that it was held there that the deductibility of disbursements or expenses was to be determined according to the ordinary principles of commercial trading or well accepted principles of business and accounting practice unless their deduction was prohibited by reason of their coming within the express terms of the excluding provision of section 6(a). I went on to say the section ought not to be read with a view to trying to bring a particular disbursement or expense within the scope of its excluding provisions, but that if it was not within the express terms of the exclusions its deduction ought to be allowed if such deduction would otherwise be in accordance with the ordinary principles of commercial trading or well accepted principles of business and accounting practice. It is manifest from the reasons for judgment in that case that the first approach to the question whether a particular disbursement or expense was deductible for income tax purpose was to ascertain whether its deduction was consistent with ordinary principles of commercial trading or well accepted principles of business and accounting practice and that if it was the next enquiry should be whether the deduction was within or without the exclusions of section 6(a). My only present observation is that I should have omitted the reference to accounting practice which I made in that case.

¹ [1947] Ex. C.R. 527.

In the case of *Daley v. Minister of National Revenue*¹ I carried the analysis a step further and expressed the opinion that it was not correct to look at section 6(a) as the authority, even inferentially, for permitting the deduction of a disbursement or expense. I put my view, at page 521, as follows:

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The correct view, in my opinion is that the deductibility of the disbursements or expenses that may properly be deducted "in computing the amount of the profits and gains to be assessed" is inherent in the concept of "annual net profit or gain" in the definition of taxable income contained in section 3. The deductibility from the receipts of a taxation year of the appropriate disbursements or expenses stems, therefore, from section 3 of the Act, if it stems from any section, and not at all, even inferentially, from paragraph (a) of section 6.

This led to the statement that in some cases it was not necessary to consider section 6(a) at all, for if the deduction of a disbursement or expense was not permissible by the ordinary principles of commercial trading or accepted business and accounting practice, such as, for example, that of the disbursement in question in that case, that was the end of the matter and it was not necessary to make any further enquiry, for if ordinary business practice could not sanction the deduction the expenditure could not possibly fall outside the exclusions of section 6(a) but must automatically fall within its prohibition.

It is, therefore, erroneous to say that there was a departure or reversal in the *Daley* case (*supra*) from what was said in the *Imperial Oil Limited* case (*supra*) as to what should be the first approach to the question whether a disbursement or expense was deductible for income tax purposes.

The statement in the *Daley* case (*supra*) that the deductibility of a disbursement or expense was inherent in the concept of "annual net profit or gain", and stemmed from section 3 of the Act, if from any section, and not from section 6(a) was implicit in the reasons for judgment in the *Imperial Oil Limited* case (*supra*) but not expressed. For there, at page 530, I stated that the "profits or gains to be assessed", to use the opening words of section 6, were the net profits or gains described in section 3 as being taxable income, subject to section 6 with which section 3 must be read and pointed out that the principles for the computa-

¹ [1950] Ex. C.R. 516.

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tion of such profits or gains were not defined in the Act but were stated in judicial decision, and I referred to the statement of Lord Halsbury L.C. in *Gresham Life Assurance Society v. Styles*:¹

Profits and gains must be ascertained on ordinary principles of commercial trading.

And also to the approval by Earl Loreburn in *Ushers' Wiltshire Brewery, Limited v. Bruce*² of the statement that:

profits and gains must be estimated on ordinary principles of commercial trading by setting against the income earned the cost of earning it.

It follows from this line of reasoning, which is as applicable in the case of *The Income Tax Act* as it was in that of the *Income War Tax Act*, that instead of saying that the range of deductibility of an outlay or expense is greater under section 12(1)(a) than that of a disbursement or expense under section 6(a) of the *Income War Tax Act* it would be more accurate to say that the extent of the prohibition of the deduction of an outlay or expense is less under section 12(1)(a) of *The Income Tax Act* than that of a disbursement or expense under the *Income War Tax Act*. Indeed, it was plainly intended that it should be so, with the result that the gap, if it may be so described, between the kind of an outlay or expense that is deductible according to ordinary principles of commercial trading and business practice and that which is deductible for income tax purposes is narrower now than it was under the former Act.

Consequently, if the correct approach to the question of whether a disbursement or expense was properly deductible in a case under the *Income War Tax Act* was the one which I have outlined, it follows, *a fortiori*, that it is the correct approach to the question of whether an outlay or expense is properly deductible in a case under *The Income Tax Act*. Thus, it may be stated categorically that in a case under *The Income Tax Act* the first matter to be determined in deciding whether an outlay or expense is outside the prohibition of section 12(1)(a) of the Act is whether it was made or incurred by the taxpayer in accordance with the ordinary principles of commercial trading or well accepted principles of business practice. If it was not, that is

¹ [1892] A.C. 309 at 316.

² [1915] A.C. 433 at 434.

the end of the matter. But if it was, then the outlay or expense is properly deductible unless it falls outside the expressed exception of section 12(1)(a), and therefore, within its prohibition.

There is, in my opinion, no doubt that it was consistent with good business practice for a trust company like the appellant to make the payments in question. They were made as a matter of business policy that had been carefully considered, was well regulated and had been in effect for many years prior to the year in question. It was considered that the use of social club facilities by the appellant's officers was particularly suited to the kind of personal business done by a trust company and was a means for promoting business beyond that which advertising could produce. The experience over the years showed that the policy had worked out well and that its benefits to the appellant were real. Business contacts were made at the club and business was discussed there. Memberships in the clubs had produced profitable business for the appellant. Moreover, the appellant's competitors followed policies similar to the appellant's and the evidence is that it was considered good business practice for a trust company to have its business getting officers become members of social clubs and pay their admission fees and annual membership dues. In addition to the business and commercial judgment of the appellant's officers that the payments made by them were properly deductible as business expenses there was the opinion of Mr. A. Gilmour as an accountant, for what it is worth, that from an accounting point of view the deduction of the amount of the payments made by the appellant was a proper and necessary one for the ascertainment of its true profits and gains. Thus I find as a fact that the payments made by the appellant were made in accordance with principles of good business practice for trust companies.

I now come to the enquiry whether the deduction of the amount in question is prohibited by section 12(1)(a) of the Act or falls within its expressed exception.

The mere fact that an outlay or expense was made or incurred by a taxpayer in accordance with the principles of commercial trading and was consistent with good business practice does not automatically make it deductible for

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income tax purposes. If it were not so there would have been no need to couch the exception in section 12(1)(a) in the terms that were used. A similar thought was expressed in respect of the corresponding provision of the United Kingdom Act by Kennedy L.J. when he said in *Smith v. Lion Brewery Company Limited*¹:

It is clear that it is not every expenditure which is made by a trader for the promotion of his trade, and which, in fact contributes to the earning of profits, which is a permissible deduction from the estimate of profits for Income Tax purposes.

And an illustration of the kind of expenditure referred to, although made consistently with good business practice, that was not deductible as not coming within the exception of section 12(1)(a) and, therefore, within its prohibition is to be found in the decision of the Income Tax Appeal Board in *No. 237 v. Minister of National Revenue*². There the Chairman of the Board held that the expense incurred by the taxpayer in paying its solicitor for his services in bringing about a tariff amendment that resulted in a saving of manufacturing costs to it was not an outlay or expense made or incurred for the purpose of gaining or producing income from its business and was, therefore, not deductible.

There is a specific limitation in the exception expressed in section 12(1)(a) on the kind of outlay or expense that may be deducted. It must have been made or incurred, in the case of a taxpayer engaged in a business, for the purpose of gaining or producing income from his business.

It is not necessary that the outlay or expense should have resulted in income. In *Consolidated Textiles Limited v. Minister of National Revenue*³ I expressed the opinion that it was not a condition of the deductibility of a disbursement or expense that it should result in any particular income or that any income should be traceable to it and that it was never necessary to show a causal connection between an expenditure and a receipt. And I referred to *Vallambrosa Rubber Co. v. Inland Revenue*⁴ as authority for saying that an item of expenditure may be deductible in the year in which it is made although no profit results from it in such year and to *Commissioners of Inland Revenue v. The*

¹ (1910) 5 T.C. 568 at 581.

² (1955) 12 Tax A.B.C. 230.

³ [1947] Ex. C.R. 77 at 81.

⁴ (1910) 47 Sc. L.R. 488.

*Falkirk Iron Co., Ltd.*¹ as authority for saying that it may be deductible even if it is not productive of any profit at all. I repeated this opinion in the *Imperial Oil Limited* case. The statements made in the cases referred to, which were cases governed by the *Income War Tax Act*, are equally applicable in a case under *The Income Tax Act*. The discussion of this point in the present case is, in a sense, academic, for even if it were necessary to show a causal connection between an expenditure and income it could be done in the present case. Both Mr. Pembroke and Mr. Harrington gave evidence of specific instances of profit actually resulting to the appellant from its expenditure.

The essential limitation in the exception expressed in section 12(1)(a) is that the outlay or expense should have been made by the taxpayer "for the purpose" of gaining or producing income "from the business". It is the purpose of the outlay or expense that is emphasized but the purpose must be that of gaining or producing income "from the business" in which the taxpayer is engaged. If these conditions are met the fact that there may be no resulting income does not prevent the deductibility of the amount of the outlay or expense. Thus, in a case under *The Income Tax Act* if an outlay or expense is made or incurred by a taxpayer in accordance with the principles of commercial trading or accepted business practice and it is made or incurred for the purpose of gaining or producing income from his business its amount is deductible for income tax purposes.

That is plainly the situation in the present case. I have already found that the payments by the appellant were made in accordance with principles of good business practice for a trust company. It is equally clear, in my opinion, that they were made by the appellant for the purpose of gaining or producing income from its business. The appellant's purpose was to increase its business through personal contacts of its officers with persons whom it would not otherwise readily reach. The clubs were to be used as extensions of its office facilities for persons who would rather go there than to its office. Its whole policy was for the purpose of furthering its business and so gaining or producing income from it. In my view, the payments in

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¹ (1933) 17 T.C. 625.

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question were properly deductible and the Minister was in error in adding their amount to the taxable income reported by the appellant.

There are some further observations to be made. It was contended by counsel for the respondent that the deduction of the amount of the appellant's payments was prohibited by section 12(1)(a) on the ground that they were only remotely connected with its income earning process and not directly connected as the law required. In support of this contention he relied upon the statement of Lord Macmillan in *Montreal Coke and Manufacturing Company v. Minister of National Revenue* and *Montreal Light, Heat and Power Consolidated v. Minister of National Revenue*¹ where he said:

Expenditure to be deductible, must be directly related to the earning of income.

On the strength of this statement counsel contended that the test of whether an outlay or expense is deductible under section 12(1)(a) is whether it was directly connected with gaining or producing income from the taxpayer's business and his submission was that the appellant's expenditures were not directly connected with its income earning process and that the relationship between its income and its payments of its officers' admission fees and annual membership dues was remote. I am unable to agree with this submission. Counsel's use of Lord Macmillan's statement in support of his contention is not warranted. I had occasion to refer to the statement in the *Imperial Oil Limited* case (*supra*) at page 544, with a view to placing it in its proper context. Lord Macmillan was dealing with the words "for the purpose of earning the income" in section 6(a) of the *Income War Tax Act* and drew a sharp distinction between two classes of expenditures, namely, those connected with the financial operations of the companies involved and those connected with their business. But since it was only through their business that they *earned* income only the latter expenditures could be deducted, and those that were connected with the financial operations, not being related to the business from which the companies *earned* income, could not be deducted. When Lord Macmillan made the statement that "an expenditure, to be deductible must be

¹ [1944] A.C. 126 at 133.

directly related to the earning of income", it was for the purpose of drawing a distinction between the two classes of expenditures he had been discussing: if the expenditure was to be deductible it could only be because it was related to the earning of income and not to the financial operations. Thus, counsel was not justified in using the statement in support of his contention. Moreover, the connection between the appellant's gain or production of income from its business and the payments made by it was not remote in any sense of the term.

Counsel's specific contention regarding the amount of the payments made for admission fees presents more difficulty. Put briefly, the submission was that when the appellant paid the admission fee when one of its officers joined a club this was a payment made once and for all in respect of that officer and it was, therefore, a payment on account of capital within the meaning of section 12(1)(b) of the Act, to which I have already referred, and its deduction was prohibited. In my opinion, there is no realistic reason for drawing a distinction between the payments for admission fees and those for annual membership dues. Both were made for the same purpose. The reality is that in the first year of an officer's membership in a club the payments are higher than in subsequent years. The admission fee is only the first in a series of payments. It does not create any asset for the appellant or confer any lasting or enduring benefit upon it. It would be lost if the annual membership dues were not paid. Mr. Pembroke and Mr. Harrington did not see any difference between the two kinds of payments. As Mr. Harrington put it the admission fees were paid, just as the annual membership dues were, to get the advantage of the club facilities for the advancement of the appellant's business and Mr. Pembroke considered that since they were not recoverable and no asset was acquired they were ordinary expenses of longer duration than the others. Moreover, although the admission fees were paid once and for all for the officers for whom they were paid they were recurring expenses so far as the appellant was concerned. I have already stated that admission fees for 5 officers were paid in 1952 and the evidence is that the amount of \$1,200 thus paid in that year was about an average annual expenditure for admission fees.

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In my view, the payments for admission fees stand in the same position as those for annual membership dues. What I have said is subject to one slight adjustment. In respect of one of the amounts paid for admission fees there was a small item of \$25 accruing to the appellant as a continuing share in the club and to that extent the amount paid is not deductible.

For the reasons given I find that the appellant, in computing its income for 1952, was entitled to deduct the sum of \$9,527.29 which it had paid for club admission fees and annual dues, except for the sum of \$25, and the assessment must be revised accordingly. The appeal herein must be allowed and the assessment referred back to the Minister for the necessary revision. The appellant is also entitled to costs.

Judgment accordingly.

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Jan. 22
Jan. 25

BETWEEN:

THE MINISTER OF NATIONAL REVENUE

APPELLANT;

AND

EASTERN TEXTILE PRODUCTS, LTD. RESPONDENT.

Revenue—Income tax—Income War Tax Act, R.S.C. 1927, c. 97, s. 5(p)—The Income Tax Act, S. of C. 1948, c. 52, ss. 3, 4, 26(1)(d), 53, 127(1)(e)—Taxpayer may carry on more than one business—Deductibility of business losses in other years limited to cases of profit from business in which loss sustained.

Prior to 1951 the respondent was in the business of manufacturing and selling textile products at Saint John. At some time prior to October 31, 1950, which was the end of its 1950 fiscal and taxation year, it sold its manufacturing plant and stopped manufacturing but continued to sell the products which the purchaser of the plant manufactured for it. In October or November of 1950 it entered into a joint venture with Ottawa Car and Aircraft Limited for the purchase of certain aircraft engines, related aircraft parts and certain motors. These articles were sold in 1951 by Bancroft Industries Limited as commission agent for the parties to the joint venture and the respondent made a substantial profit from the sale. In 1951 it purchased a stock of canvas shoes from War Assets Corporation and sold them at a profit. The Minister included the profits referred to in the respondent's assessment for its 1951 taxation year. It appealed to the Income Tax Appeal Board

against the assessment on the ground that it was entitled under section 26(1)(d) of *The Income Tax Act*, 1948, to deduct from its 1951 profits its losses in 1947, 1948, 1949 and 1950 and the Board allowed its appeal. The Minister appealed from its decision.

Held: That the right given to a taxpayer by section 26(1)(d) to deduct from his income for a taxation year business losses sustained by him in other years is a departure from the general scheme of the Act and as such must be confined within the expressed limits of the section.

2. That in an appeal from an income tax assessment the Court is not concerned with the correctness of the reasons given by the Minister either for the assessment or for his confirmation of it after the taxpayer's objection to it. The appeal is not from the Minister's reasons but against the assessment, which carries a presumption of validity that enures to it unless the taxpayer who attacks it shows that it was erroneous either in fact or in law. *Dezura v. Minister of National Revenue* [1948] Ex. C.R. 10 at 15 and *Johnston v. Minister of National Revenue* [1948] S.C.R. 486 at 489 followed.
3. That section 26(1)(d) of *The Income Tax Act*, 1948, instead of being less restrictive of a taxpayer's right to deduct business losses than section 5(p) of the *Income War Tax Act* had been, was more restrictive.
4. That section 3 and section 26(1)(d) of the Act contemplate that a taxpayer may carry on more than one business.
5. That it is contrary to the policy declared in section 26(1)(d) that a taxpayer should have the right to deduct from his income for any taxation year a business loss sustained in another year in a case where his income is not from the business in which the loss was sustained.
6. That since the respondent ceased its manufacturing business prior to 1951 and that was the business in which its losses in 1947, 1948, 1949 and 1950 were sustained and it did not make any profit from such business in 1951, its case came within the limitation of section 26(1)(d) and it was not entitled to deduct any of the business losses claimed by it.
7. That the appeal must be allowed and the Minister's assessment restored.

APPEAL from decision of the Income Tax Appeal Board.

The appeal was heard before the President of the Court at Montreal.

Lyon W. Jacobs, Q.C., and *J. D. C. Boland* for appellant.

Lazarus Phillips, Q.C., and *Philip L. Vineberg* for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (January 25, 1957) delivered the following judgment:

This is an appeal from the decision of the Income Tax Appeal Board, *sub nom. No. 280 v. Minister of National*

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*Revenue*¹, dated August 30, 1955, allowing the respondent's appeal from its income tax assessment for 1951.

The respondent's fiscal year ended on October 31 and so did its taxation year, so that when I refer in these reasons for judgment to a year I mean the year ending on October 31 in such year.

The issue in the appeal is whether the appellant in computing its taxable income for 1951 was entitled to deduct from its income for such year the business losses sustained by it in 1947, 1948, 1949 and 1950.

The determination of the appeal involves consideration of section 26(d) of *The Income Tax Act*, Statutes of Canada, 1948, Chapter 52, as amended in 1949, which reads as follows:

26. For the purpose of computing the taxable income of a taxpayer for a taxation year, there may be deducted from the income for the year such of the following amounts as are applicable:

- (d) business losses sustained in the 5 taxation years immediately preceding and the taxation year immediately following the taxation year, but
 - (i) an amount in respect of a loss is only deductible to the extent that it exceeds the aggregate of amounts previously deductible in respect of that loss under this Act,
 - (ii) no amount is deductible in respect of the loss of any year until the deductible losses of previous years have been deducted, and
 - (iii) no amount is deductible in respect of losses from the income of any year except to the extent of the lesser of
 - (A) the taxpayer's income for the taxation year from the business in which the loss was sustained, or
 - (B) the taxpayer's income for the taxation year minus all deductions permitted by the provisions of this Division other than this paragraph or section 25.

The facts may be stated briefly. The respondent was incorporated by New Brunswick Letters Patent, dated October 28, 1943, and had its chief place of business at Saint John. For several years it carried on business there in rented premises. Its business was the manufacturing of textile products such as pyjamas, boxer shorts, overalls, mackinaws and other such goods and the selling of the products so manufactured by it. Mr. J. J. Block, the respondent's president, said that in the early part of 1951, about March, the respondent sold its manufacturing plant and arranged to have its purchaser manufacture for it the

products which it had previously produced. Thereupon the respondent stopped manufacturing but continued to sell the products which the purchaser of the plant manufactured for it. While the date of the sale of the plant and the cessation of manufacturing was put by Mr. Block at about March in 1951, Mr. F. Windsor, a chartered accountant with the firm of McDonald Currie & Company, who were the respondent's auditors in 1951 and prepared its income tax return for that year, said that Mr. Block must have been in error in saying that the sale was in 1951 and that it must have been prior to October 31, 1950. He said that if there had been a sale during the respondent's fiscal year ending on October 31, 1951, there would have been some indication to that effect in its financial statement for that year and there was no such indication. Mr. Windsor's statement is confirmed by a letter which the respondent wrote to the Director of Income Tax at Saint John, dated February 12, 1952, re its 1950 T return, giving particulars not only of the equipment that had been sold by it but also of sales of raw materials. In my opinion, the evidence points to the sale having been made, not early in March, 1951, as Mr. Block recalled, but at some time prior to October 31, 1950, and I so find.

It follows that in 1951 the respondent was not engaged in the business of manufacturing. In addition to selling the textile products which the purchaser of its plant manufactured for it the respondent in 1951 purchased a stock of canvas shoes from War Assets Corporation and sold them at a profit.

In October or November of 1950, the exact date not being established, the respondent entered into a joint venture with Ottawa Car and Aircraft Limited for the purchase of Packard Merlin Rolls Royce engines, related aircraft parts and 87 twin Diesel Motors, with a view to selling them. These articles were sold in 1951 by Bancroft Industries Limited as commission agents for the parties to the joint venture and the respondent made a substantial profit from it.

I now set out the financial results. In the four years immediately preceding the taxation year with which this appeal is concerned, that is to say, 1951, the respondent sustained business losses and I set out their amounts as

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follows, namely; \$16,432.43 in 1947, \$15,392.97 in 1948, \$87,228.08 in 1949 and \$22,818.02 in 1950.

But in 1951 the respondent made a profit of \$16,560.38 prior to tax from its sale of textiles and a profit of \$168,853.41 from its joint venture.

In its income tax return for 1951 the respondent claimed that it was entitled to deduct from its profit of \$16,560.38 from its sale of textiles, its business loss in 1947 of \$16,432.43 so far as necessary, the amount claimed being \$15,771.38, leaving it with a nil taxable income. In its return it disclosed a surplus of \$168,853.41 arising from aircraft investment, this being the amount of its profit from the joint venture, but it did not report this amount as an item of taxable income, apparently taking the view that it was apart from its business and, consequently, a non-taxable capital gain.

When the Minister assessed the respondent for 1951 he added to the amount of taxable income reported by it, that is to say, nil, the sum of \$15,771.38 which it had sought to deduct in respect of its 1947 business loss and the sum of \$168,853.41, being its profit from the joint venture, making a total addition of \$184,624.79, involving a tax (including penalty) of \$79,410.92.

The respondent objected to the assessment. It did not persist in the pretence that its profit of \$168,853.41 was a capital gain but attacked the assessment on the ground that under section 26(d) of the Act it was entitled to deduct from its income for 1951 the total amount of the business losses sustained by it in 1947, 1948, 1949 and 1950, amounting to \$141,871.50, which would leave \$32,753.29 as the amount properly assessable against it. The minister notified the respondent that he confirmed the assessment whereupon it appealed to the Income Tax Appeal Board which allowed the appeal. It is from that decision that the appeal to this Court is brought.

On the facts the question for decision is whether the respondent was entitled to deduct from its income for 1951 the business losses sustained by it in 1947, 1948, 1949 and 1950.

The general scheme of *The Income Tax Act*, as also of the *Income War Tax Act*, R.S.C. 1927, Chapter 97, is that

income for tax purposes is computed on an annual basis.
Section 3 of the Act provides:

3. The income of a taxpayer for a taxation year for the purposes of this Part is his income for the year from all sources inside or outside Canada and, without restricting the generality of the foregoing, includes income for the year from all

- (a) businesses,
- (b) property, and
- (c) offices and employments.

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And section 4 provides:

4. Subject to the other provisions of this Part, income for a taxation year from a business or property is the profit therefrom for the year.

It is emphasized that the taxpayer's income for any taxation year is his income "for the year" and when that comes from a business, his income for the year is the profit from his business "for the year".

The right given to a taxpayer by section 26(d) to deduct from his income for a taxation year business losses sustained by him in other years is, therefore, a departure from the general scheme of the Act and as such must be confined within the expressed limits of the section.

It would, I think, be desirable to set out briefly the history of this statutory right. It was first granted by section 5(7) of the Statutes of Canada, 1942-43, Chapter 28, when paragraph (p) was first added to section 5 of the *Income War Tax Act*. This provided for a deduction from income of losses sustained in the process of earning income during the year last preceding the taxation year by a person carrying on the same business in both of such years, subject to certain limitations and qualifications. There was a slight change made by section 5 of Chapter 14 of the Statutes of Canada, 1943-44, and, finally, by section 4(5) of Chapter 43 of the Statutes of Canada, 1944-45, section 5(p) of the *Income War Tax Act* was made to read as follows:

5. "Income" as hereinbefore defined shall for the purposes of this Act be subject to the following exemptions and deductions:—

- (p) amounts in respect of losses sustained in the three years immediately preceding and the year immediately following the taxation year, but
 - (i) no more is deductible in respect of a loss than the amount by which the loss exceeds the aggregate of the amounts deductible in respect thereof in previous years under this Act,

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- (ii) an amount is only deductible in respect of the loss of any year after deduction of amounts in respect of the losses of previous years, and
- (iii) nothing is deductible in respect of a loss unless the taxpayer carried on the same business in the taxation year as he carried on in the year the loss was sustained,

if, in ascertaining the losses, no account is taken of an outlay, loss or replacement of capital, a payment on account of capital, any depreciation, depletion or obsolescence or disbursements or expenses not wholly, exclusively and necessarily laid out or expended for the purpose of earning the income, except such amount for depreciation and depletion as the Minister may allow for the purpose of this paragraph.

To this paragraph there was a proviso with which we are not here concerned.

When *The Income Tax Act* was enacted section 26(d) took the place of section 5(p) of the *Income War Tax Act* except that the opening words of paragraph (d) were as follows:

business losses sustained in the three years immediately preceding and the year immediately following the taxation year, but

Section 26(d) in its present form was enacted by section 11(5) of Chapter 25 of the Statutes of Canada, 1949, 2nd Session.

It should be noted that the words "the same" preceding the word "business" in section 5(p) of the *Income War Tax Act* do not appear in section 26(d) of *The Income Tax Act*. This fact led counsel for the respondent to point out that in the memorandum, dated February 19, 1954, attached to the notice of re-assessment, dated May 17, 1954, the position was taken that the losses incurred in 1950 and prior years were not deductible on the ground that the business then carried on by the respondent was not similar to that carried on in 1951 and that in the Minister's notification under section 53 of the Act the assessment was confirmed as having been made in accordance with the provisions of the Act and in particular on the ground that

the taxpayer is not entitled to a deduction from income in respect of losses sustained in 1947, 1948, 1949 and 1950 taxation years as its income for the 1951 taxation year was not from the same business in which the losses were sustained within the meaning of paragraph (d) of subsection (1) of section 26 of the Act

and it was suggested that this showed error on the Minister's part.

By way of answer to the suggestion I re-iterate what I have said in several cases that in an appeal to this Court from an income tax assessment the Court is not concerned with the correctness of the reasons given by the Minister either for the assessment or for his confirmation of it after the taxpayer's objection to it. They may be erroneous. The appeal to the Court is not from the Minister's reasons but against the assessment. It is the validity of the assessment that is before the Court. It carries a statutory presumption of validity and that enures to it unless the taxpayer who attacks it shows that it was erroneous either in fact or in law: *vide Dezura v. Minister of National Revenue*¹ or, as Rand J. put it in *Johnston v. Minister of National Revenue*² discharges his onus to "demolish the basic fact on which the taxation rested."

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Counsel for the respondent contended that under section 26(d) of the Act it was entitled to deduct from its income for 1951, including its profit from the joint venture, the business losses sustained by it in 1947, 1948, 1949 and 1950. He referred to the definition of "business" in section 127(1)(e) of the Act which provides:

127. (1) In this Act,

(e) "business" includes a profession, calling, trade, manufacture or undertaking of any kind whatsoever and includes an adventure or concern in the nature of trade but does not include an office or employment;

and contended that the word "business" in *The Income Tax Act* had a larger ambit than previously. He also referred to sections 10, 21 and 31(1)(j) of the *Interpretation Act*, R.S.C. 1952, Chapter 158, which I need not set out. Then he cited several decisions to show that the word business is a word of "large and indefinite import", namely, *Smith v. Anderson*³; *Rolls v. Miller*⁴; *Anderson Logging Company v. The King*⁵; *Samson v. Minister of National Revenue*⁶; *Economic Trust Company v. Minister of National Revenue*⁷; *Atlantic Sugar Refineries Limited v. Minister of*

¹ [1948] Ex. C.R. 10 at 15.

² [1948] S.C.R. 486 at 489.

³ (1880) 15 Ch. D. 247 at 258.

⁴ (1884) 53 L.J. Ch. D. 99.

⁵ [1925] S.C.R. 45;

[1926] A.C. 140.

⁶ [1943] Ex. C.R. 17 at 32.

⁷ [1946] Ex. C.R. 446.

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*National Revenue*¹; *Gardiner Securities Limited v. Minister of National Revenue*²; *Minister of National Revenue v. Taylor*³; *No. 123 v. M.N.R.*⁴ and *Edith Petroleums Ltd. v. M.N.R.*⁵.

Counsel also referred to Simon's *Income Tax*, Second Edition, Vol 1, page 43, as authority for saying that the meaning and intention of a provision will be ascertained from the words used in the light of the statutes as a whole and that in cases of doubt or ambiguity recourse may be had to the former statutes.

On the strength of the authorities referred to, the change in the Act from the words "the same business" to "the business", the large import of the word "business", its enlarged scope because of its definition in section 127(1)(e) and the wording of the Act as a whole and read in the light of the history of the section counsel submitted that the right of deduction of business losses was greater under section 26(d) of *The Income Tax Act* than it had been under section 5(p) of the *Income War Tax Act*, and that the words "the business" in section 26(d) meant essentially the business of the respondent as it might be from time to time. Put specifically, his submission was that the business of the respondent in 1951 was the business of buying and selling commodities with a view to making a profit thereby, that its business in the loss years was likewise the business of manufacturing and selling commodities with a view to the same objective, and, in short, that its business in 1951 was "the business" of the respondent within the meaning of section 26(d) and that since its income for 1951 from such business under section 26(d)(iii)(A) was less than its income for 1951, minus all permitted deductions, under 26(d)(iii)(B) it was entitled to deduct all the business losses sustained by it in 1947, 1948, 1949 and 1950 to their full extent.

I do not agree with the contention thus put forward. There are, in my opinion, several reasons for rejecting it. In the first place, as Mr. Boland for the appellant clearly showed, section 26(d) of *The Income Tax Act*, instead of being less restrictive of a taxpayer's right to deduct business

¹ [1948] Ex. C.R. 622; [1949] S.C.R. 706 at 707.

² [1952] Ex. C.R. 448; [1954] C.T.C. 24.

³ [1956] C.T.C. 189.

⁴ (1953) 9 Tax A.B.C. 216.

⁵ (1956) 16 Tax A.B.C. 17.

losses than section 5(p) of the *Income War Tax* had been, was more restrictive. This was illustrated by two examples. It was assumed in a case to which section 5(p) would have applied that a company in 1947 carried on business A and sustained a business loss in that year and that in 1948 it carried on business A and also business B and that it did not make a profit from business A but made a profit from business B. Under section 5(p) of the *Income War Tax Act* the company would be entitled to deduct its 1947 loss from its 1948 profit even although it had not made any profit from the same business as it had carried on in the loss year by reason of the fact that in 1948 it carried on the same business in that year as it had carried on in 1947 when its loss was sustained. This anomaly was removed when section 26(d) of *The Income Tax Act* was enacted. It was assumed in a case to which that section would have applied that a company in 1949 carried on business A and sustained a business loss in that year and that in 1950 it carried on business A and also business B and that it did not make a profit from business A but made a profit from business B. In that case the company would not be entitled to deduct its 1949 loss from its 1950 profit because its income for 1950 from the business in which the loss was sustained was nil and, therefore, it was the lesser of the two amounts referred to in (A) and (B) of subsection (iii) of section 26(d). It was, therefore, erroneous to contend that the right of deduction of business losses was enlarged by section 26(d). On the contrary, it was restricted.

Moreover, section 3 of the Act contemplates that a taxpayer may carry on more than one business and that concept is also embodied in section 26(d). It is well established that a company can carry on more than one business: *vide*, for example, *Birt, Potter and Hughes, Ltd. v. Commissioners of Inland Revenue*¹; *Scales v. George Thompson & Co., Ltd.*² and *H & G. Kinemas, Ltd. v. Cook*³. But if counsel for the respondent's contention that the word "business" in section 26(d) means whatever the company is doing from time to time were adopted it would be tantamount to saying that its business is always the same. That would, of course, make it impossible for it to carry on more than one business.

¹ (1926) 12 T.C. 976.

² (1927) 13 T.C. 83.

³ (1933) 18 T.C. 116.

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Furthermore, the adoption of the contention would make sub-paragraph (A) in section 26(d)(iii) meaningless. And it is a cardinal principle that an interpretation leading to such a result must be erroneous.

Section 26(d) confers upon a taxpayer the right, subject to certain limitations, to deduct from his income for a taxation year business losses sustained by him in other years. This is a statutory right that would not exist apart from the enactment by which it is granted. The extent of the right and the conditions to which it is subject are expressed in the section. It follows that the right must not be extended beyond the permission of its express terms and that the conditions for its exercise must be strictly complied with. Subsection (iii) of section 26(d) puts a limitation on the extent to which losses may be deducted but the contention advanced by counsel for the respondent ignores this limitation. If it had been intended to give effect to such a contention it is inconceivable that paragraph (A) of section 26(d)(iii) would have been worded as it was. Instead of using the expression "from the business in which the loss was sustained" some such expression as simply "from the business" would have been used. Counsel's contention brushes to one side the limiting and definitive effect of the expression "in which the loss was sustained" and amounts to a reading of the paragraph as if the limiting and definitive expression were omitted.

Counsel's contention as applied to the respondent is, in effect, that in 1951 its business in the course of which it made a profit from its joint venture was the business of manufacturing and selling textiles in which it had sustained its losses although prior to 1951 it had abandoned such business. The contention is untenable.

It is, I think, sound to say that there is a difference between ambiguity of an enactment and difficulty in its interpretation and it ought not to be assumed from the fact that it is difficult to interpret an enactment that it is ambiguous in its terms. I am not confronted with such a situation here. I do not see any ambiguity in section 26(d) and I have not found any difficulty in its interpretation.

It seems to me that section 26(d) contemplates that a taxpayer may continue in the business in which he has previously sustained business losses or engage in some other

business, either by itself or together with his former business, with varying results that need not be enumerated, but that subsection (iii), by limiting the extent of the taxpayer's right to deduct losses to the lesser of the amounts specified in paragraphs (A) and (B) of the subsection, makes it clear that the extent of the amount that may be deducted in respect of losses from the income for any year shall never be greater but may be less than the amount of the taxpayer's profit from the business in which the loss was sustained. From this it follows, of necessity, that if he does not make a profit from the business in which the loss was sustained, whether by reason of having ceased such business or otherwise, the extent of the amount which he may deduct in respect of losses is nil. The right to deduct losses does not extend to a profit from an activity other than the business in which the loss was sustained. It seems to me that it is contrary to the policy as declared in the section that a taxpayer should have the right to deduct from his income for any taxation year a business loss sustained in another year in a case where his income is not from the business in which the loss was sustained. Thus, if he ceases to carry on the business in which the loss was sustained and, therefore, does not make any profit from it the right to deduct a business loss does not enure to him. The purpose of the policy no longer exists.

Consequently, since the respondent ceased its manufacturing business prior to 1951 and that was the business in which its losses in 1947, 1948, 1949 and 1950 were sustained, and it did not in 1951 make any profit from such business but made it from something else, its case comes within the limitation of subsection (iii) of section 26(d) and it is not entitled to deduct from its income for 1951, even its income from the sale of textiles in that year, any of the business losses sustained by it in 1947, 1948, 1949 and 1950.

It follows from what I have said that the appeal herein must be allowed with costs and the Minister's assessment restored.

Judgment accordingly.

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BETWEEN:

Feb. 4-8,
18-22, 25-28

RADIO CORPORATION OF AMERICA . . PLAINTIFF;

Mar. 1,
Mar. 4-8,
11-15, 18-19

AND

Mar. 30

RAYTHEON MANUFACTURING }
COMPANY }

DEFENDANT.

Patents—Conflict proceedings—The Patent Act, 1935, S. of C. 1935, c. 32, ss. 35(1), (2), 44(1)(a), (3), (4), (5), (6), (7), (8)—Statutory duty to describe invention—Claims invalid unless supported by disclosures in specification—Evidence of knowledge or use of invention prior to that asserted by applicant for patent subject to closest scrutiny—Findings in conflict proceedings not an imprimatur of validity of claims in conflict.

The claims in conflict in these proceedings were contained in two applications for letters patent for an invention relating to methods of sealing a glass stem in a glass bulb in the manufacture of miniature glass radio receiving tubes on a mass production scale. They appeared first in the application of H. R. Seelen, filed on November 19, 1941, and assigned to the plaintiff. They appeared later in the application of C. A. Horn, filed on August 6, 1942, assigned to Raytheon Production Corporation and by it to the defendant. The Commissioner of Patents, following the procedure prescribed by section 44 of *The Patent Act, 1935*, required each applicant to furnish an affidavit as provided for under section 44(5). In his affidavit Seelen stated that he had conceived the idea of the invention described in the claims between the last part of October, 1938, and December 1, 1938, that he wrote a description of the invention on April 13, 1939, and that tubes made by the method of the invention were made on a production basis in May, 1939. In his affidavit Horn stated that he conceived the idea of the invention and made the first drawing of it on or about December, 1937, and that tubes utilizing the invention were put into commercial production on or about August, 1938. On the strength of these affidavits the Commissioner allowed the claims in conflict to Horn and rejected them in Seelen's application and notified the parties that he would act accordingly unless proceedings were commenced in this Court within the prescribed time for the determination of the rights of the parties. The plaintiff thereupon brought the present proceedings under section 44(8) of the Act.

There were two issues in the action. It was contended for the plaintiff that the defendant was not entitled to any of the claims in conflict on the ground that the disclosures in Horn's application did not support them and that the plaintiff was entitled to them. It was contended for the defendant that if the defendant was not entitled to the claims for the reason stated the plaintiff was not entitled to them on the ground that Horn was the first inventor of the invention defined by them, even although he did not make the requisite disclosures to entitle him to them.

Held, in respect of the first issue: That an inventor may not validly claim what he has not described and that if the disclosures of the specification do not support the claims they are invalid.

2. That there is a statutory duty, under section 35 of *The Patent Act*, 1935, of disclosure and description of the invention that must be complied with if a claim for it is to stand.
3. That the onus of disclosure that the section places on an inventor is a heavy and exacting one.
4. That the specification in the Seelen application may not be used as a dictionary for the purpose of ascertaining the meaning of the claims in conflict in the Horn application. Only the Horn specification may be used for that purpose and only to the extent that resort may be had to it to ascertain the meaning of the terms in the claims.
5. That when a specification discloses the invention of a process for the manufacture of an article in which the use of a special feature of the invention is essential to its success the inventor is not entitled to claim a process for the manufacture of the article in which the special feature is not used. He is not entitled to claim a monopoly more extensive than is necessary to protect that which he has invented.
6. That the Horn specification disclosed the use of features essential to his invention that were not mentioned in the claims in conflict and that the invention defined in them was different from and wider than that disclosed in the specification.
7. That the disclosures in the Horn specification did not support the invention defined in the claims in conflict and that the defendant was not entitled to them.

Held, in respect of the second issue: That evidence of the knowledge or use of an invention prior to that asserted by an applicant for a patent should be subjected to the closest scrutiny.

2. That the onus of proof that Horn was the first inventor of the invention defined in the claims in conflict was a very heavy one.
3. That Horn was not a prior inventor to Seelen of the invention defined in the claims in conflict.

Held, generally: That as between the parties the plaintiff was entitled to the issue of a patent containing the claims in conflict.

2. That the findings herein did not put an imprimatur of validity on the claims in conflict and that their validity was a matter for determination only in an action for infringement or for impeachment if such proceedings should be taken.

ACTION to determine rights of parties in conflict proceedings.

The trial was held before the President of the Court at Ottawa.

Gordon F. Henderson, Q.C. and *David Watson* for plaintiff.

Christopher Robinson, Q.C. and *George Riches, Q.C.* for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

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THE PRESIDENT now (March 30, 1957) delivered the following judgment:

These proceedings are brought pursuant to section 44(8) of *The Patent Act*, 1935, Statutes of Canada, 1935, Chapter 32, for the determination of the respective rights of the parties to certain claims, hereinafter called the claims in conflict, contained in two applications for patents of invention pending in the Canadian Patent Office of which applications and inventions the parties hereto are respectively the owners by assignment.

It is necessary to a proper appreciation of the issues in the action that the circumstances leading to its commencement should be understood. They are not in dispute. The claims appeared first in the application of Harry R. Seelen for letters patent of invention which was filed in the Canadian Patent Office on November 19, 1941, as No. 487,747. The invention was entitled Glass Envelope Seals and the plaintiff is the owner of Seelen's rights to it under an assignment from him. The claims in question are five in number and read as follows:

1. The method of making a radio tube envelope having a glass shell closed at one end with a glass disc type header comprising telescoping the shell over the header so that the rim of the shell overlies the edge of the header, heating the shell rim and header edge to welding temperature, and artificially cooling the central portion of the disc to control the strains in the disc and in the seal region at said rim.

2. The method of making a glass envelope having a glass shell closed at one end with a flat glass disc through which metal lead-in conductors are sealed, comprising holding the disc in the end of the shell with the rim of the shell overlying the edge of the disc, blowing air at room temperature against the center of the disc, and heating the shell rim and disc edge to sealing temperature, and continuing the air blowing after the seal is made.

3. The method of fabricating a radio tube envelope with a shell and flat header of glass having a thermal coefficient of expansion less than 10^{-5} , and metal contact pins having a thermal coefficient of expansion more than 10^{-5} sealed in the header and arranged in a circle concentric with the disc, comprising heating the disc and pins to a temperature below $300^{\circ}\text{C}.$, heating the edge portion of the disc and the contiguous rim of the shell to sealing temperature while maintaining the temperature of the central portion of the disc and pins to said temperature below $300^{\circ}\text{C}.$, and cooling the central portion more rapidly than the rim of the disc.

4. The method of sealing a glass disc in the end of a glass shell comprising heating the contiguous edges of the disc and shell to sealing temperature, and at the same time blowing air at about room temperature onto the central portion of the disc, the air flow being adjusted to prevent the temperature of said portion from rising above the deformation tem-

perature of the glass, then increasing the air flow after the seal is made to rapidly cool the glass, and finally heating the glass to annealing temperature.

5. The method of making a radio tube envelope having a glass shell closed at one end with a glass disc containing a plurality of lead-in conductors arranged in a circle substantially concentric with said disc and projecting normal to the outer surface of said disc, comprising mounting said lead-in conductors on a support with said disc close to but spaced from said support, placing said shell over said disc, heating the edge of the disc and the contiguous portion of the shell to glass sealing temperature, and admitting cooling air through an opening in said support opposite the central portion of said disc and forcing the air against said central portion and hence radially outward in all directions between the disc and the support and around said conductors, controlling the rate of air flow during and after sealing to prevent cracking strains in the disc and the disc-to-shell seal region as the glass cools to room temperature.

These claims appeared later, under circumstances that will be stated, in the application of Clarence A. Horn for letters patent of invention which was filed in the Canadian Patent Office on August 6, 1942, as No. 494,962. The invention is entitled Method of Making Molded Stems and the defendant is the owner of Horn's rights to it under an assignment from him to Raytheon Production Company and from it to the defendant.

The claims are identical with the claims in United States patent No. 2,296,579, dated September 22, 1942, issued to H. R. Seelen based on his application filed in the United States Patent Office on November 30, 1940, as No. 367,933.

The circumstances under which they came to be included in Horn's application may be stated briefly. Claims 1 and 2 in the Seelen United States application had been copied into the Horn United States application for purposes of interference in the United States and by a letter, received in the Patent and Copyright Office on July 22, 1943, Horn's Canadian patent attorneys requested that these two claims be added to his Canadian application as claims 10 and 11 and this amendment to his application was made accordingly. Thereupon, since the two claims thus added to Horn's application were identical with claims 1 and 2 in Seelen's application, there was conflict between the two applications within the meaning of section 44(1)(a) of *The Patent Act* which provides:

44. (1) Conflict between two or more pending applications shall exist

(a) when each of them contains one or more claims defining substantially the same invention; or . . .

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And this is so notwithstanding the fact that the applications became conflicting ones by reason of the situation created by Horn's patent attorneys in copying claims 1 and 2 of the Seelen application as stated.

In view of this conflict it was incumbent on the Commissioner of Patents to take the steps prescribed in section 44 of the Act. On August 24, 1943, acting under section 44(3) of the Act, he notified Mr. Seelen and Mr. Horn through their respective patent attorneys that conflict existed between their two applications and transmitted to each a copy of the claims made by the other. In his notification to Horn's patent attorneys he informed them that claims 1 to 5 in the Seelen application, designated as Claims C1 to C5, were readable on the copending application and had been submitted to the other applicant. Thereupon, on September 17, 1943, Horn's patent attorneys added claims C3, C4 and C5 from Seelen's application to Horn's application as claims 12, 13 and 14. Thus claims 10, 11, 12, 13 and 14 in Horn's application were identical with claims 1, 2, 3, 4 and 5 in Seelen's application. These are the claims in conflict. They were directed by the Commissioner to be designated as Claims C1 to C5 and they will hereafter be so referred to.

On November 25, 1943, the Commissioner under section 44(3) of the Act notified the applicants through their respective patent attorneys that action under section 44(5) of the Act was deferred for three months in order to enable the applicants to present arguments under section 44(4). Some arguments were presented, as appears from the correspondence set out in the Patent Office file wrappers filed as Exhibits 1 and 2, but they had no effect and on April 3, 1944, the Commissioner, acting under section 44(5) of the Act notified each of the applicants through their respective patent attorneys that as the claims C1 to C5, having been found allowable over the prior art, appeared in the copending application, each applicant was required to furnish an affidavit as provided for under section 44(5), which provides as follows:

44. (5) If the subject matter is found to be patentable and the conflicting claims are retained in the applications, the Commissioner shall require each applicant to file in the Patent Office, in a sealed envelope duly endorsed, within a time specified by him, an affidavit of the record of the invention. The affidavit shall declare:—

- (a) the date at which the idea of the invention described in the conflicting claims was conceived;
- (b) the date upon which the first drawing of the invention was made;
- (c) the date when and the mode in which the first written or verbal disclosure of the invention was made;
- (d) the dates and nature of the successive steps subsequently taken by the inventor to develop and perfect the said invention from time to time up to the date of the filing of the application for patent.

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Pursuant to the Commissioner's requirement each of the applicants filed an affidavit. Mr. Seelen's affidavit was made on July 13, 1944, and was forwarded to the Commissioner on July 18, 1944. He stated, *inter alia*, that he conceived the idea of the invention described in the conflicting claims between the last part of October, 1938, and December 1, 1938, that he wrote a description of the invention on April 13, 1939, that in May, 1939, tubes made by the method of the invention were being made on a production scale and that on October 11, 1939, a standardizing notice was issued describing the procedure. Mr. Horn's affidavit was made on May 25, 1944, and sent to the Commissioner on June 15, 1944. He stated, *inter alia*, that he conceived the idea of the invention on or about December, 1937, that the first drawing of the invention was made on or about December, 1937, and that on or about August, 1938, tubes utilizing the invention were put into commercial production.

The affidavits were opened at the same time, pursuant to section 44(6), on March 12, 1945, by the Commissioner in the presence of the Chief Examiner and the Examiner of Division 18 and, on that date, the Commissioner allowed the claims in conflict to C. A. Horn, assignor to Raytheon Production Corporation, assignor to the defendant, and rejected the conflicting claims in the application of H. R. Seelen, assignor to the plaintiff.

The Commissioner made this decision under section 44(7) of the Act which provides:

44(7) The Commissioner, after examining the facts stated in the affidavits, shall determine which of the applicants is the prior inventor to whom he will allow the claims in conflict and shall forward to each applicant a copy of his decision. A copy of each affidavit shall be transmitted to the several applicants.

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It should be noted that there is no provision in the Act for cross-examination of the applicants on their affidavits, that the applicants are not present or represented when their affidavits are opened, that there is no hearing before the Commissioner and that no opportunity is afforded for argument on the affidavits. The Commissioner does not make an adjudication of the rights of the applicants to the claims on the merits. He bases his decision merely on the priority of the dates alleged in the affidavits.

On March 27, 1945, the Commissioner advised the applicants through their patent attorneys that on the facts stated in the affidavits he would allow the claims in conflict to Horn in his application No. 494,962 and reject the conflicting claims in Seelen's application No. 487,747, unless within two months from March 27, 1945, action was taken under section 44(8) of the Act.

It is now important to set out the provisions of this section. It reads as follows:

44(8) The claims in conflict shall be rejected or allowed accordingly unless within a time to be fixed by the Commissioner and notified to the several applicants one of them commences proceedings in the Exchequer Court of Canada for the determination of their respective rights, in which event the Commissioner shall suspend further action on the applications in conflict until in such action it has been determined either

- (i) that there is in fact no conflict between the claims in question, or
- (ii) that none of the applicants is entitled to the issue of a patent containing the claims in conflict as applied for by him, or
- (iii) that a patent or patents, including substitute claims approved by the Court, may issue to one or more of the applicants, or
- (iv) that one of the applicants is entitled as against the others to the issue of a patent including the claims in conflict as applied for by him.

On May 15, 1945, the Commissioner extended the time within which action might be taken to July 27, 1945, and on July 23, 1945, he extended the time further to August 27, 1945.

The plaintiff then commenced its action in this Court on August 27, 1945. The effect of the action is that the Commissioner suspends further action on the applications in conflict until the determination of the Court has been made. The issue of patents awaits the decision of the Court.

As I see it there are two issues in the action. The first is raised for the plaintiff and the second for the defendant.

It is contended for the plaintiff that the defendant is not entitled to any of the claims in conflict on the ground that the disclosures in Horn's application do not support them and that the Court ought, therefore, to determine the respective rights of the parties to the claims against the defendant and order that the plaintiff is entitled to the issue of a patent containing them.

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The second issue is propounded on behalf of the defendant. It is contended that if the Court should determine that the defendant is not entitled to the claims in conflict for the reason stated it should also determine that the plaintiff is not entitled to them on the ground that Seelen was not the first inventor of the invention defined by them but that Horn was, even although he did not make the requisite disclosures to entitle him to them.

On the second day of the trial it was argued for the plaintiff that it was not open to counsel for the defendant on the pleadings to adduce evidence in support of his contention on the second issue but I gave leave to amend the statement of defence to enable him to do so, if he saw fit. Since then I have reviewed the pleadings carefully and am of the opinion that the statement of defence did permit the leading of the desired evidence and that leave to amend it was not necessary.

It is, of course, clear that if the Court determines the first issue in favor of the defendant that is the end of the matter and the second issue need not be considered. It falls to be determined only in the event that the Court determines the first issue against the defendant.

It is also clear that a patent would have issued to the plaintiff as assignee of H. R. Seelen containing the claims 1, 2, 3, 4 and 5 as made by him, if Horn's patent attorneys had not copied claims 1 and 2 into his application in the manner described and thus, in a sense, created the situation that made the applications conflicting applications within the meaning of section 44(1)(a), so that the Commissioner had to act as section 44 required him to do in the circumstances. That this is so is demonstrated beyond dispute by reference to the Patent Office file wrapper relating to the Seelen application, filed as Exhibit 1, in which it appears that on April 13, 1943, the Commissioner informed Seelen's patent attorney that his application for patent had been

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examined and allowed and that a patent would issue. It was only after the possible conflict with the Horn pending application that this allowance was cancelled on July 27, 1943.

It follows from what I have said that if the Court determines the two issues against the defendant it should determine as between the parties that the plaintiff is entitled to the issue of a patent containing the claims in conflict.

Evidence for the plaintiff was given by Mr. George M. Rose, the manager of the plaintiff's advance development group at Harrison, New Jersey, Mr. Harry R. Seelen, the inventor referred to in one of the conflicting applications, who, at the time of his invention, was in charge of the plaintiff's development shop operation, and Mr. Kenneth M. McLaughlin, who was charged with obtaining equipment and supplies under Mr. Seelen's direction. The witnesses called for the defendant were Mr. Norman B. Krim, the president and manager of the defendant's receiving and cathode ray division, Mr. James Kyle, the defendant's foreman in charge of the maintenance and construction of equipment, who worked under the direction of Mr. Charles A. Horn, the inventor referred to in the other conflicting application, Mr. F. Edward Anderson, the defendant's distribution and sales manager, Mr. Homer G. Anderson, a former employee of the defendant chiefly concerned with the evacuation of radio tubes, and Mr. Jesse B. Shapiro, the defendant's divisional glass engineer of its commercial radio tube division.

The trial of the action lasted 27 days and the various facets of the issues involved in it were carefully examined. Since the first issue is largely concerned with the construction of the specification in Horn's application and the second is basically an issue of fact it is not necessary to review the evidence in detail.

The inventions made by Horn and Seelen were both related to the making of miniature glass radio receiving tubes on a mass production scale. Conventional glass tubes of various types and sizes and also metal tubes were on the market but there was a demand for miniature glass tubes that would be efficient and could be economically produced, but their manufacture on a mass production basis presented special problems. How Horn and Seelen envisaged

these problems and the objects they sought to accomplish in the course of their solution will appear in their respective applications.

The various parts of the miniature glass radio receiving tubes with which Horn and Seelen were concerned and the parts of the sealing-in machines they used are described in their respective specifications and illustrated in the drawings accompanying them, but there is no uniformity in the use of terms to describe them. Basically, the two parts of the tube are a glass stem and a glass bulb. The stem is also called a header, a wafer, a disc, or disk in Horn's specification, a button or a bottom. The bulb is also called a shell or envelope, but in Seelen's specification envelope means a bulb with a stem in it. When the stem is made wires or pins or rods, arranged in a circle, called the pin ring, are sealed into the glass. The upper end of these are connected with the electrical parts of the tube, called in their total the mount assembly or mount, whereas the lower ones serve as contact members for insertion into a socket or the prongs of a base. The lower ends are called lead-in pins but they are also referred to as lead-in rods or lead-in conductors. Glass is built up around the wires where they go through the stem and these additions are known as fillets or bosses. The Horn stem is fitted with an exhaust tube extending from its lower side whereas the exhaust tube in the Seelen invention is at the top of the bulb. The glass bulb may be cut or uncut. When an uncut bulb is used, as in the case of the Horn process, it is necessary to separate the lower part, called the cullet or skirt, from the upper when the bulb is joined to the edge of the stem in the course of the sealing-in process. This process is done on an automatic sealing-in machine, either an 8 head Eisler machine or a 16 head Sealex machine. The sealing-in head of such machine consists of a spindle which rotates, called a rotatable member in the Horn application, on which there is placed a spindle chuck, generally called a mount pin, but also referred to as a sealing pin or mount block. In addition, there are devices for holding the stem and bulb in position after they have been loaded on the mount pin and during the sealing-in operation, such as a collet, or clamping jaws. I should, perhaps, note here that the Court had the advantage, during the trial, of seeing, in the Court-room,

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a moving picture of a Sealex machine in operation showing the manner in which flames play on the bulb as the rotating sealing-in head moves in a circular manner from one position on the machine to the next. The sealing-in process will be referred to later when the respective specifications of the two inventors are examined. But it may be mentioned here that, after the bulb and stem are joined as the result of the play of the flames on the bulb, there is a shaping of the join. In the Horn sealing-in process this is done by an operation known as pull-down whereas in the process adopted by Seelen the shaping is by air blown in from the top of the bulb.

Before I deal with the first issue certain observations should be made. It is a cardinal principle of patent law that an inventor may not validly claim what he has not described. In the patent law jargon it is said that the disclosures of the specification must support the claims. If they do not, the claims are invalid. Moreover, there is a statutory duty of disclosure and description that must be complied with if a claim for an invention is to stand. Section 35 of *The Patent Act*, 1935, provides, in part:

35. (1) The applicant shall in the specification correctly and fully describe the invention and its operation or use as contemplated by the inventor, and set forth clearly the various steps in a process, or the method of constructing, making, compounding or using a machine, manufacture or composition of matter, in such full, clear, concise and exact terms as to enable any person skilled in the art or science to which it appertains, or with which it is most closely connected, to make, construct, compound or use it. In the case of a machine he shall explain the principle thereof and the best mode in which he has contemplated the application of that principle. In the case of a process he shall explain the necessary sequence, if any, of the various steps, so as to distinguish the invention from other inventions. He shall particularly indicate and distinctly claim the part, improvement or combination which he claims as his invention.

(2) The specification shall end with a claim or claims stating distinctly and in explicit terms the things or combinations which the applicant regards as new and in which he claims an exclusive property or privilege.

In *Minerals Separation North American Corporation v. Noranda Mines Limited*¹ I had occasion to consider the duties of disclosure required of an inventor in consideration of the grant of a valid monopoly in respect of his invention. At page 316, I said:

Two things must be described in the disclosures of a specification, one being the invention, and the other the operation or use of the invention as

¹ [1947] Ex. C.R. 306.

contemplated by the inventor, and with respect to each the description must be correct and full. The purpose underlying this requirement is that when the period of monopoly has expired the public will be able, having only the specification, to make the same successful use of the invention as the inventor could at the time of his application. The description must be correct; this means that it must be both clear and accurate. It must be free from avoidable obscurity or ambiguity and be as simple and distinct as the difficulty of description permits. It must not contain erroneous or misleading statements calculated to deceive or mislead the persons to whom the specification is addressed and render it difficult for them without trial and experiment to comprehend in what manner the invention is to be performed. It must not, for example, direct the use of alternative methods of putting it into effect if only one is practicable, even if persons skilled in the art would be likely to choose the practical method. The description of the invention must also be full; this means that its ambit must be defined, for nothing that has not been described may be validly claimed. The description must also give all information that is necessary for successful operation or use of the invention, without leaving such result to the chance of successful experiment, and if warnings are required in order to avert failure such warnings must be given. Moreover, the inventor must act *uberrima fide* and give all information known to him that will enable the invention to be carried out to its best effect as contemplated by him.

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and I cited the cases from which this statement was abstracted. The statutory requirement then in effect was section 14 of *The Patent Act*, Statutes of Canada, 1923, Chapter 23, and I made the statement that it merely puts the requirements of the law, as laid down in the cases, into statutory form. While my judgment in the *Minerals Separation* case (*supra*) was reversed, the statement I have cited has not been challenged. And it is applicable in a case to which section 35 of *The Patent Act*, 1935, applies: *vide Di Fiore v. Tardi*¹. The onus of disclosure that the section places on an inventor is a heavy and exacting one.

It is contended for the plaintiff that Horn did not discharge this onus in respect of the claims in conflict and could not validly make them and, consequently, that the defendant is not entitled to them. This is the first issue in the case. In order to determine it the disclosure portion of Horn's application, which I shall refer to as the specification or the Horn specification, must be carefully examined.

While Horn says in his specification that he has invented certain "new and useful improvements in Method of Making Molded Stems" it discloses more than that. It is really in three sections, one dealing with a novel stem,

¹ [1952] Ex. C.R. 149 at 154.

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another with the method of making it and the third with a sealing-in process in which it is used. It should be noted that the application with which we are concerned in this action is a division of an original application, filed on January 11, 1940 as No. 470,184.

The specification shows that Horn was concerned with the problem of producing glass radio receiving tubes with envelopes in which the stem serves as the tube base itself, and which carries lead-in conductors which also serve as the external contact pins and that difficulties have been encountered in constructing a stem which could readily be sealed to the envelope. He then sets out the objects of the invention, namely, to devise a stem of the type stated which can be sealed to an envelope in a simple, inexpensive and reliable manner, to devise such a stem which is inexpensive to manufacture and to devise a novel method of making such a stem.

After a description of the component parts of a tube reference is made to certain difficulties and requirements if it is to be commercially successful. One of these is that, since the lead-in rods serve as the external contact members for the tube, they must be kept parallel and maintained accurately in their predetermined circular relationship in order that the tubes may fit interchangeably in standard sockets provided therefor. Then it is stated that the glass of the stem must not extend too far up or down along the lead-in rods. And it is pointed out that another requirement is that the stem may be easily sealed to the envelope by the usual type of sealing-in machine. A further requirement is also stated, namely, that during the sealing-in process the main body of the stem carrying the lead-in rods shall not be subjected to any distortion which might tend to upset the requisite positional accuracy of the lead-in rods. Thus four essential requirements are specified. Then there is the following statement "Stems made in accordance with my present invention satisfy each of these requirements, and produce a tube which satisfies all of the objects of my invention as stated above."

The specification then describes the novel stem in detail. It consists of a substantially flat "disk" of glass having a central thickened portion into which the lead-in rods are sealed. It is stated that this thickened portion must have

certain characteristics. It must be sufficiently strong to withstand atmospheric pressure exerted on its lower flat surface upon completion of the tube. It must also be thick enough to support the lead-in rods firmly and definitely without cracking. And it must be sufficiently massive so that during the sealing of the stem to the envelope it is not heated sufficiently to soften to any appreciable extent. Dimensions of this thickness are then given. But the novelty of the stem consists in a special feature, namely, that surrounding the thickened portion of the stem there is a thinned edge. The characteristics of this thinned edge are specified. The top is preferably disposed in the same plane as the top of the thickened portion. But it must have a thickness sufficiently less than that of the central portion so that during the sealing-in process it can soften sufficiently to seal readily to the glass envelope without producing any appreciable softening of the central portion. The thickness of the thinned edge may conveniently be made about half the thickness of the thickened portion. Then reference is made to upper and lower bosses around each lead-in rod.

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The specification then describes certain essential features of the machine for molding the novel stem, such as its upper and lower molds, and the method of operation of the stem-making machine. During the molding operation the exhaust tube, the lower end of which has been softened by the application of a gas flame thereto, is brought into contact with the central portion of the plastic mass so as to be sealed thereto. After the completed stem has been permitted to cool it is removed from the machine. I need not make any further reference to the method of making the novel stem, for in these proceedings we are not concerned with it.

I now come to what may be called the third section of the specification, namely, that which relates to the sealing-in process in which the novel stem with its thinned edge, or thin lip, is used. This must be carefully considered for all the claims in conflict may be described generally as sealing-in claims.

Before the sealing-in process is dealt with in the specification there is a description of the parts that are used in the process. In the first place the mount is assembled on the lead-in rods of the stem. It is disclosed that a sealing

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machine is used for the sealing-in process but the kind of machine, whether Eisler or Sealex, is not specified. But one part of the machine, namely, the sealing-in head, is described. This includes a rotatable member provided with a central bore through which air may be blown. This rotatable member carries a mount block at its upper end, which is also provided with a central bore communicating with the bore of the rotatable member. The mount block is provided with a series of holes adapted to receive the pins of the stem. There is a series of lugs on the mount block, one between each two holes, and they are spaced sufficiently far apart so that the lower bosses of the stem may be received between each pair of lugs. Every other lug is made shorter than the adjacent one so that, when the stem is supported upon the mount block and air is blown through the bore, passages are left so that air may flow freely over the bottom face of the stem for a purpose described later. The mount block is provided at its lower portion with an annular shoulder above which there are bores passing from the central bore to the exterior of the mount block. The lower portion of the rotatable member is provided with a pair of clutch jaws and a tapered sleeve surrounds the rotatable member and is adapted when moved downwardly to force the clamping jaws inwardly.

The sealing-in process is then described. The stem carrying the mount is inserted on the sealing-in head by inserting the exhaust tube into the central bore. The lead-in rods are received into the holes of the mount block and the bottom of the lower bosses of the stem rest upon the face of the mount block between the lugs. The glass envelope is then applied over the stem and mount. It is conveniently positioned by resting against a pair of standards formed as part of the mount. The sealing-in then proceeds by stated steps. Heat is applied by means of suitable glass flames adjacent the thinned edge of the stem which brings about a softening of the glass at this point, causing a constriction towards the stem until contact is made with the thinned edge and fusion of the wall of the envelope and the thinned edge occurs. The sealing head is then moved to another position on the sealing machine where the gas flames are directed to a point slightly below the thinned edge, the heat produced being sufficient to cause a melting of the glass so

that the weight of the lower skirt of the glass envelope tends to cause a separation at the thinned edge. At this stage air is blown up through the bore in order to assist the separation. The previous softening of the glass has caused sufficient constriction so as to contact the annular shoulder thus producing a closed pocket between the annular shoulder and the stem. The air coming up through the central bore and the bores above the annular shoulder causes an air pressure within the pocket which bursts the plastic glass bubble and produces the desired separation at the thinned edge. This, in the language of the art, is called cutting off the cullet. Then the gas flames are continued for a short time around the thinned edge so as to produce a uniform rounding of the glass at the sealing-in point. Then the next stage takes place. The sealing-in head moves out of the region of the gas flames and air is continued to be blown through the bore for a short period. This air passes up through the central bore and out through the spaces left by the short lugs on the mount block as well as other intervening spaces between the stem and the mount block. It is clear that this air, which is relatively cool, continues to cool the body of the stem up to and during what is called the pull-down operation—but not afterwards.

The pull-down operation is described in detail. The clamping jaws move inwardly and engage the envelope while the tapered sleeve is moved downwardly to force the clutch jaws into clamping engagement with the exhaust tube. Then relative motion is produced between the clutch arms and the rotatable member so that the stem is pulled down with respect to the envelope. This pull-down produces the requisite working and rounding of the glass at the sealing-in point. The envelope is now ready for exhaustion which takes place through an exhaust tube after which the exhaust tube is sealed off.

Two things are clear. One is that while air is blown against the body of the stem up to and during the pull-down operation air is not blown afterwards. It is specifically stated that the pull-down operation is *subsequent* to the air blowing operation. Moreover, it is stated that after the pull-down operation the tube is ready for exhaustion. That means that immediately after the pull-down operation the

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tube is taken off the sealing machine and put on an exhaust machine. The other thing that is clear is the purpose of blowing air against the stem during the period after the sealing-in head moves out of the region of the gas flames and up to the completion of the pull-down operation. This is to cool the body of the stem so as to insure that it is solid and rigid "during the subsequent pull-down operation". The purpose of maintaining a rigid body is emphasized in the statement that due to the fact that the main body of the stem is rigid and the lead-in rods are firmly received in the holes of the mount block no distortion of the stem or dislocation of the lead-in rods takes place during the pull-down. Thus distortion of the stem and dislocation of the lead-in rods which might happen during the pull-down is prevented by two means, one being the blowing of air against the stem during the period mentioned to make it solid and rigid and the other the fitting of the lead-in rods tightly into the holes of the mount block.

The remainder of the specification is important. It contains the statement "I have found that tubes made in accordance with my invention produce satisfactory seals which have very little tendency to crack at the sealing-in point". Then it is stated that this is due partly to various aspects of the invention involving the thickened central portion and thinned edge of the stem. There is no specific reference to any other cause. Then Horn says that he has found that, if the internal surface of the envelope is kept free of all sharp bends and a smooth and rounded contour preserved, substantially all tendency to crack at this point will be eliminated. He attributes this to the use of his novel stem with the thinned edge. He says that by forming the stem with the thinned edge in the same plane as the upper surface of the stem the elimination of sharp bends and the preservation of a smooth contour is readily obtained. He then explains why this is so, namely, that, due to the particular construction which he has described, when the thinned edge is made plastic during the sealing-in process, the wall of the envelope will fuse to the thinned edge and form a continuation thereof, that during the pull-down operation the thinned edge will have some slight tendency to be bent upwardly, thus producing a smooth transition curve from the thinned edge to the interior walls

of the envelope, and that, since the thinned edge is originally formed as a continuation of the upper surface of the stem, this smooth transition will be carried down without any break or interruption onto the upper surface of the stem. He then says that even if the thinned edge were not formed in this way, the requisite sealing might still be accomplished with proper precautions and considerable advantage still obtained from the thinned edge irrespective of its relationship with respect to either surface of stem.

The specification concludes with the admonition that the invention is not limited to the particular details described as many equivalents will suggest themselves to those skilled in the art and he gives one example, namely, that it may be desired to utilize the invention in tubes having the conventional base with additional contacting prongs.

It is, in my opinion, beyond dispute that Horn considered that his invention consisted of his novel stem with its thickened central portion and its thinned edge. He thought that a stem of this kind satisfied each of the requirements that had to be met if a tube was to be commercially successful. And it seems clear that by the term "my invention" in his statement "I have found that tubes made in accordance with my invention produce satisfactory seals which have very little tendency to crack at the sealing-in point", he meant his novel stem with the thinned edge. He points out that the production of satisfactory seals which have very little tendency to crack at the sealing-in point is due partly to various aspects of the invention pointed out above involving the thickened portion and thinned edge of the stem and does not specifically mention any other cause to which it is due, except that he has found that if the internal surface of the envelope adjacent the sealing-in point is kept free of all sharp bends and a smooth and rounded contour preserved substantially all tendency to crack at this point will be eliminated. And it seems plain to me that he attributes the substantial elimination of all tendency to crack at this point to the fact that the elimination of sharp bends and the preservation of a smooth contour is readily obtained by forming the stem with the thinned edge in the same plane as the upper surface of the stem because of the fact that when the thinned edge is made plastic during the sealing-in process the walls of the envelope will fuse to it

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and during the pull-down operation the thinned edge will tend to bend upwardly and form a smooth transition curve from the thinned edge to the interior walls of the envelope. It would not, in my opinion, be unfair to say that Horn considered that his contribution to the art consisted of his invention of his novel stem and his method of making it and using it in a sealing-in process.

Counsel for the defendant conceded that at the date of his application Horn thought that this was his invention but submitted that what the Court is concerned with in dealing with the first issue is not what Horn thought his invention was but what the disclosures in his specification show it to be. There is merit in this submission but while I say this I do not mean that Horn's view of his invention as disclosed in the specification is to be disregarded.

Counsel argued that the Horn specification discloses invention beyond that of the novel stem and the method of making it, namely, the blowing of air through the bore for a short period, as stated in the specification. With that contention I agree but, in my opinion, the invention so disclosed is subject to the limitations disclosed, namely, that the air blowing is for the short period from the time that the sealing-in head moves out of the region of the gas flames and up to and during the pull-down operation, but not afterwards, and that the air-blowing is done so that the air cools the body of the stem so as to insure that it is solid and rigid during the pull-down operation thus preventing any distortion of the main body of the stem and dislocation of the lead-in rods during the pull-down operation. Thus, in my opinion, it would be fair to say that the invention disclosed by the Horn specification so far as it relates to a sealing-in process consists in the use of his novel stem with its thickened central portion and its thinned edge, or thin lip, and the blowing of air through the central bore of the sealing-in head for the period and purpose stated.

There is one further comment. It was suggested by counsel for the plaintiff that the claims in conflict contain words or expressions whose meaning may be determined by reference to the Seelen application in which they first appeared in it before they were imported into the Horn application by Horn's patent attorneys. In my view, it is

not permissible in the determination of the first issue to resort to the Seelen application in order to ascertain the meaning of the claims in conflict. They are now claims in the Horn application and the issue whether the defendant is entitled to them depends on whether the disclosures in the Horn specification support them. The specification in the Seelen application may not be used as a dictionary for the purpose of ascertaining the meaning of the claims in conflict *vis-a-vis* the Horn application. Only the Horn specification may be used for that purpose and, of course, only to the extent that resort may be had to the disclosures in the specification to ascertain the meaning of the terms in the claims.

I now come to the claims in conflict and do not hesitate to say that, in my opinion, the disclosures in the Horn specification do not support them and, consequently, the defendant is not entitled to them.

There are several reasons for this conclusion. The thinned edge, or thin lip, of the novel stem which Horn devised and found so essential to the production of satisfactory seals with very little tendency to crack at the sealing-in point is not mentioned in any of the claims in conflict. In my opinion, that makes the invention defined in the claims different from and wider than the invention disclosed in the specification. It is, I think, consistent with principle to say that when a specification discloses the invention of a process for the manufacture of an article in which the use of a special feature of the invention is essential to the success of the invented process the inventor is not entitled to claim a process for the manufacture of the article in which the special feature is not used. He is not entitled to claim a monopoly more extensive than is necessary to protect that which he has invented. There is authority for this statement in *The Mullard Radio Valve Co., Ltd. v. Philco Radio and Television Corporation of Great Britain, Ltd. et al*¹. In that case two claims were under consideration in respect of an invention for "Improvements in or relating to circuit arrangements and discharge tubes for amplifying electric oscillations". Claim 1 read as follows:

A circuit arrangement for amplifying electric oscillations by means of one or more thermionic discharge tubes connected in series or cascade, characterised in that the discharge tube of the last stage of amplification

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¹ (1936) 53 R.P.C. 323.

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comprises a screening grid kept at a constant high potential between the control grid and the anode and that such discharge tube is so arranged by the introduction of an auxiliary grid kept at a constant and relatively low potential that, when the anode potential falls below the potential of the screening grid, the increase of the screening grid current at the expense of the anode current will be substantially avoided.

This claim was held to be valid. Lord Macmillan said of it, at page 343:

Claim 1 describes with precision the special feature of the circuit arrangement claimed—namely that the discharge tube of the last stage of amplification in the circuit shall have an auxiliary grid, kept at a constant and relatively low potential, interposed between a screening grid, kept at a constant high potential, and the anode, the control grid being on the further side of the screening grid from the anode. Starting with the anode, the order of arrangement in the discharge tube is to be as follows: (1) anode, (2) auxiliary grid or “suppressor grid”, kept at a constant and relatively low potential, (3) screening grid kept at a constant high potential, (4) control-grid, (5) cathode. The three grids may physically be identical as pieces of meshed metal, but it is of the essence of the claim that they should have characteristic potentials imparted to them which give them their functional importance in relation to the anode current. The auxiliary grid or “suppressor” is to have a potential “constant and relative low”; the screening grid is to have a “constant high potential”; the potential of the control grid, being the grid which receives the oscillations communicated from the outside by the aerial, naturally varies.

Later, he stated, at page 345:

The Patentee has told us quite definitely that his invention deals with the case of a final amplifier which comprises a screening grid between the control grid and the anode and that he has invented means by which, in such a case, the screening grid current is prevented entirely or partially from increasing at the expense of the anode current when the anode potential falls. The problem which he set out to solve and the disadvantages which he professes to overcome relate solely to discharge tubes with a screening grid between the control grid and the anode. His discovery was that, if in a discharge tube with a screening grid between the control grid and the anode he inserted between the screening grid and the anode an additional “suppressor” grid, he achieved the advantageous results which he describes. That is the ambit of his invention and for that he is entitled to protection.

But claim 2 in the case was different. It read:

A discharge tube having at least three auxiliary electrodes between the cathode and the anode characterised in that the auxiliary electrode nearest to the anode is directly connected to the cathode so as to be maintained continuously at the cathode potential.

This claim was held to be invalid. Lord Macmillan said of this claim, at page 345, immediately after the passage cited above:

But claim 2 makes no reference to screening grids or control grids at all. It simply speaks of three or more electrodes irrespective of their function as screening grids or control grids or suppressor grids or of their arrangement relatively to each other. Now it is quite true that, regarded simply as pieces of meshed metal, a screening grid, a control grid and a suppressor grid may be indistinguishable, and that a grid may serve as a screening grid, a control grid or a suppressor grid according to the potential communicated to it. But if that is so, then the three or more electrodes which the discharge tube claimed is to contain may be so used that the grid used as a screening grid is not between the grid used as the control grid and the anode. In a discharge tube in which the electrodes are so used the connecting of the grid nearest to the anode with the cathode will not achieve the object of the invention, which has solely to do with discharge tubes which comprise means for preventing the screening grid current "entirely or partially from increasing at the expense of the anode current when the anode potential falls". This will not be achieved unless the suppressor grid is placed between the screening grid and the anode.

Thus, the special feature of the invention was, to put it briefly, the placing of the suppressor grid between the screening grid and the anode and the inventor was not entitled to claim an invention in which that was not done. Lord Macmillan put the principle of the case as follows, at page 347:

If an inventor claims an article as his invention but the article will only achieve his avowed object in a particular juxtaposition and his inventive idea consists in the discovery that in that particular juxtaposition it will give new and useful results, I do not think that he is entitled to claim the article at large apart from the juxtaposition which is essential to the achievement of those results.

In my view, this principle applies, *mutatis mutandis* in the present case. If the "very little tendency to crack at the sealing-in point" of the tubes made in accordance with Horn's invention is due to the advantages of the use of his novel stem with the thinned edge in his sealing-in process, as his specification discloses to be the case, he is plainly not entitled to claim a process for the making of tubes in which his novel stem with the thinned edge is not used.

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I may also refer to the case of *In re an Application for a Patent by Hubert Alexander Gill*¹ in support of the principle which I have stated.

But, quite apart from any decisions on the subject, it seems plain to me that in respect of the claims in conflict *vis-a-vis* the Horn application, the requirements of section 35 of *The Patent Act*, 1935 have not been met and they are, therefore, not properly included in it.

My finding on this aspect of the issue follows from my finding of the essence of Horn's invention. If his own opinion is to stand there can be no doubt that he considered that his invention consisted of his novel stem with its thinned edge and his method of making it, in which case the claims in conflict assert a wholly different invention for which there is no support in his specification. And likewise, if Horn's invention as disclosed is not confined to his novel stem and his method of making it but includes the blowing of air that he discloses and describes, as I have found, the claims in conflict are for inventions different from and wider than such invention. Here resort must be had to the disclosures of the specification. Horn said in his specification "I have found that tubes made in accordance with my invention produce satisfactory seals which have very little tendency to crack at the sealing-in point". He then says that this is due partly to various aspects of the invention involving the thickened central portion and thinned edge of his novel stem and does not specifically state any other cause for the satisfactory result. If it is conceded, notwithstanding his lack of statement of it, as I have done, that the blowing of air which he discloses is a contributing factor to the production of "satisfactory seals which have very little tendency to crack at the sealing-in point", the disclosures reveal that certain specific results, making in their total for satisfactory seals, are attributable to the several features of the invention. What the blowing of air does, according to the disclosures, is to cool the body of the stem, which is its thickened central portion, to insure that it is solid and rigid during the pull-down operation. But this is only a contributing factor to the rigidity of the stem during the pull-down, the other factor being that the

¹ (1937) 54 R.P.C. 119.

lead-in rods are firmly received in the holes in the mount block. These two factors insure that there is no distortion of the stem and no dislocation of the lead-in rods during the pull-down. That is the only reference in the disclosures of the specification to the effect of the air blowing on the production of satisfactory seals. But "the very little tendency to crack at the sealing-in point" is attributable, according to the disclosures, to the use of the novel stem with the thinned edge or thin lip in Horn's sealing-in process. Of this, there is no doubt. For the specification states, as I have pointed out, that all tendency to crack at the sealing-in point will be eliminated if the internal surface of the envelope adjacent the sealing-in point is kept free of all sharp bends and a smooth and rounded contour preserved. The achievement of this purpose is accomplished by forming the stem with the thinned edge in the same plane as the upper surface of the stem, because, when the thinned edge is made plastic during the sealing-in process, the wall of the envelope will fuse to the thinned edge and form a continuation of it and during the pull-down operation, while the thinned edge is still plastic, it will be bent upwardly so that there will be a smooth transitional curve from the thinned edge to the interior walls of the envelope. Thus it may fairly be said, according to the disclosures in the specification, that the blowing of air is one of the factors responsible for keeping the body of the stem solid and rigid during the pull-down operation and that the use of the novel stem with its thinned edge is responsible for the fact that the seals have very little tendency to crack at the sealing-in point. In other words, "the very little tendency to crack at the sealing-in point" is due to the avoidance of discontinuities of the glass in the seal region which the use of the novel stem with the thinned lip in Horn's sealing-in process has been able to accomplish.

Under the circumstances, it would be quite improper to allow Horn a monopoly for a method of making tubes in which his novel stem with its thinned edge is not used but other features, such as those stated in the claims in conflict, and not disclosed in the specification, are employed. In my view, the claims in conflict are wider than the disclosures warrant and are improperly included in Horn's application.

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This, in my opinion, warrants the determination of the first issue against the defendant but, in view of the arguments of counsel, I proceed to consideration of the claims in conflict individually.

While the Commissioner awarded the five claims to Horn it was conceded in the pleadings that the disclosures in his specification do not support Claim C3 and, consequently, the defendant is not entitled to it. During the course of the trial counsel for the defendant made a similar concession with regard to Claim C4. Thus, the first issue is confined to whether the disclosures in Horn's specification support Claims C1, C2 and C5.

The argument about Claim C1 centred around the concluding limitation in it, namely, "and artificially cooling the central portion of the disk to control the strains in the disk and in the seal region at said rim". The main support for the claim with this limitation was found by counsel for the defendant in Horn's statement in his specification "I have found that tubes made in accordance with my invention produce satisfactory seals which have very little tendency to crack at the sealing-in point". It was submitted that at the date of the specification it was considered by persons skilled in the art that all strains in glass were bad and should be minimized, that there was a definite relationship between the existence of strains in glass and tendency to crack, so that if tubes were produced with very little tendency to crack this meant that they were produced with very few strains in them and that, consequently, the strains, to that extent, had been controlled. And it was urged that whether the claim read "artificially cooling the central portion of the disk to produce seals having very little tendency to crack at the sealing-in point" or "artificially cooling the central portion of the disk to control the strains in the disk and in the seal region at said rim" made no difference, since both meant the same thing. The basic submission was that the concluding words of Claim C1 "to control the strains in the disk and the seal region at said rim" had the same meaning as if they had read "to produce satisfactory seals having very little tendency to crack at the sealing-in point." As counsel for the defendant put it, the claim must be read in the light of the knowledge that a person skilled in the art would have had at the date of the specification,

that to such a person all strains in glass were to be avoided and that to such a person the lack of tendency of a tube to crack and the absence of strains in it were merely two sides of the same medal. It was, therefore, submitted that Claim C1 was properly included in the application.

I cannot accept this submission. The Horn specification does not refer to strains in glass or show the need for controlling them or disclose how they are to be controlled. It does not direct that there should be any artificial cooling of the central portion of the stem to control strains in the stem or in the seal region. Indeed, the air blowing referred to in the specification is for a different purpose. Air is blown up through the bore of the mount block twice. The first time it is for the purpose of causing air pressure in the closed pocket between the stem and the annular shoulder after the envelope has become constricted and assisting in cutting off the cullet. With this we are not concerned. The second blowing of air is for a short period between the time that the sealing-in head moves out of the region of the gas flames and the completion of the pull-down operation, but not afterwards. The purpose of this air blowing is specified, namely, so that it cools the body of the stem so as to insure that it is solid and rigid during the subsequent pull-down operation, which, it is said, prevents any distortion of the main body of the stem and dislocation of the lead-in rods during the pull-down. This is to meet one of the requirements for a commercially successful tube mentioned in the specification, namely, that during the sealing-in process the main body of the stem carrying the lead-in rods shall not be subjected to any distortion which might tend to upset the requisite positional accuracy of the lead-in rods. The air is blown to keep the body of the stem solid and rigid during the pulldown operation and prevent the distortion referred to. There is no mention of air blowing for the purpose of having any effect on the seal region. Nor can it be agreed that a person skilled in the art at the date of the specification would know from the specification how the artificial cooling referred to in the claim is to be done in order that the desired control of strains, implying thereby their disposition and regulation, should be effected. In order to entitle Horn to Claim C1 he should have set out, in such full, clear and exact terms

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as would enable a person skilled in the art to use the method, a direction that there should be an artificial cooling of the central portion of the stem in such a way as to control the strains in it and in the seal region at the rim of the stem and how it should be done. In my opinion, he has not done so. Indeed, there is a complete absence of any direction for the control of strains. The reader of the specification would be at a loss to know what the claim meant.

Moreover, if the suggestion is that the artificial cooling of the central portion of the disk to control the strains in the disk and in the seal region at said rim is a method of producing seals with very little tendency to crack at the sealing-in point there is no foundation in the disclosures for it and it runs counter to the means disclosed in the specification for producing such seals.

I next come to Claim C2. The argument about this claim related to two limitations in it, one being "blowing air at room temperature against the center of the disk" and the other "and continuing the air blowing after the seal is made". It is obvious, of course, that with a stem of the kind invented by Horn it would be impossible to blow air against its geometric centre for it is taken up with the exhaust tube which is inserted in the central bore through which the air is blown. Counsel for the defendant urged that to any one skilled in the art "centre of the disk" would mean more than its geometric centre and would be equivalent to "central portion of the disk". But it is significant that in the specification the term "central portion" is used more than once and it appears in Claim C1 and there is no explanation for the change of terminology. But while I do not reject the objection to the claim I would not hold it inappropriate for inclusion in Horn's application solely on the ground to which objection is taken.

The real controversy about claim C2 related to the expression "continuing the air blowing after the seal is made". Most of the argument concerned the meaning of the word "seal". It was urged for the plaintiff that the word "seal" is a term of art and that a seal is not made until the stem and the envelope have been joined in the course of the sealing-in process and the envelope has been shaped, whether by a pull-down operation or otherwise. On the other hand, counsel for the defendant submitted that in the

specification it appears that the seal is made before the pull-down operation and that since air is blown up to pull-down it is blown after the seal is made. The evidence of Mr. Rose as to the meaning of the term in the jargon of the art supports in general the meaning urged for the plaintiff, but in his examination in chief he was not himself consistent in his use of it. Sometimes he used it as being synonymous with "join" and sometimes as meaning "join and shape". He was not able to refer to any documents supporting his view that a "seal" is not made until after there is a shaping of the bulb after it has been joined to the stem. Mr. Rose was subjected to searching cross-examination on the subject in the course of which it appeared that in the art the making of a seal involves the whole sealing operation. This, according to Mr. Rose, is the general usage but the term is sometimes used in a restrictive sense as being synonymous with "join". The upshot of his evidence was that the meaning of the term "seal" would be indicated by its context and that a person skilled in the art would gather from its context the sense in which it is used. It follows that since the term, being a term of art, is used in more than one sense resort may be had to the specification to determine the sense in which the inventor used it. But here there is a difference of use. For example, in claim 1 of the Horn application the forming of a seal includes a pull-down operation but counsel for the defendant rightly pointed out that forming a seal is not necessarily the same thing as making one but may include an operation after the seal is made. But counsel's main argument was that a distinction is drawn in the specification between the sealing-in process and the pull-down operation and it is stated that the latter is subsequent to the former. But I am not at all satisfied that the pull-down operation is not part of the making of the seal. It is pointed out that when the thinned edge of the stem is made plastic during the sealing-in process the wall of the envelope will fuse to the thinned edge but it remains plastic during the pull-down operation. Thus it seems to me that the seal is not finally made until after the pull-down operation is completed and the thinned edge is bent upwardly and produces a smooth transition curve from the thinned edge to the interior walls of the envelope and so avoids discontinuities in the glass at the seal region.

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But even if it should be conceded that the seal is made before the pull-down operation it does not follow that Horn would be entitled to a monopoly of "continuing the air blowing after the seal is made". There is no warrant in the specification for such a claim. He has specified that his air blowing is for a short period and he has defined the period as being from the time when the sealing-in head moves out of the region of the gas flames until the pull-down operation. After that operation the envelope is ready for exhaustion. This indicates clearly that in the process disclosed by him there is no operation between pull-down and taking the envelope off the machine for exhaustion. Horn should not be allowed to claim an invention involving air blowing after pull-down when his specification clearly shows that his air blowing is only up to pull-down and not afterwards. It might well be that the continued blowing of air after the seal is made, in the sense that "seal" means "join", would bring about results different from those produced by a process where air is blown only up to pull-down. Certainly, claim 2 covers a wider operation than that disclosed in the specification. That being so, the specification does not support it and the defendant is not entitled to it.

I turn now to claim C5. This is narrower than claim C1 and much of the argument about the latter is applicable to the former. The limitation in the claim that has to be considered is the concluding one, namely, "controlling the rate of air flow during and after sealing to prevent cracking strains in the disc and the disc-to-shell region as the glass cools to room temperature". In my opinion, the disclosures in Horn's specification do not support a claim with this limitation. It does not contain any direction relating to control of the rate of air flow and does not impart any teaching that the control of air flow is for the purpose of preventing cracking strains. Horn does not indicate that his blowing of air is for the control of strains. Moreover, if counsel for the defendant is right in his contention that "seal" means "join" and does not include "shaping" then the statement in the claim that the air flow is "during" the sealing runs counter to the Horn specification for, according to it, air is not blown until after the sealing-in head moves out of the region of the gas flames, at which time the thinned edge of the novel stem and the envelope have plainly been joined

and, as disclosed in the specification, joined in such a way as to produce a uniform rounding of the glass at the sealing-in point. And, if "sealing" includes "shaping", then plainly, as I have stated, there is, according to the Horn specification, no air flow "after" sealing for it plainly indicates that the blowing of air is only up to the pull-down operation, and not afterwards, for immediately after the pull-down the tube is ready for exhaustion. But there is another serious objection to the claim. Counsel for the defendant urged that the term "cracking strains" means strains which lead to cracks and that, consequently, the limitation under discussion means the same as if it read "controlling the rate of air flow during and after sealing to produce seals having very little tendency to crack". Then counsel contended that Horn, in effect says in his specification "blow air during sealing and up to pull-down" and "by so doing you get seals that have very little tendency to crack". And his contention was that a person who was operating according to the Horn disclosures and who was using the normal skill of the art to get the best results would do what the claim calls for. Consequently, if such person obtained tubes with very little tendency to crack he would necessarily control the strains and prevent cracking strains, whether he had ever heard of them or not, and he would, therefore, be within claim C5 as well as within claim C1. And it followed, according to this submission, that the claims are supported by the disclosures. I cannot be too emphatic in my disagreement with this submission. It is, in my opinion, erroneous to say that Horn teaches that if air is blown as he directs, that is to say, for the short period after the time when the sealing-in head moves out of the region of the gas flames and up to the time when the pull-down operation is completed, but not afterwards, satisfactory seals are produced which have very little tendency to crack at the sealing-in point. I say categorically that the Horn specification does not, directly or indirectly, convey any such teaching. On the contrary, it is as plain as words can make it that Horn attributes the "little tendency to crack at the sealing-in point" to the use of his novel stem with its thinned edge in his sealing-in process. There is thus no merit in counsel's submission. In my view, there is no support for claim 5 in the disclosures of the Horn specification.

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In my opinion, it is clear that the invention disclosed in Horn's specification is a different one from that defined in the claims in conflict. If the results of each are the same, which is not conceded, the methods by which they are respectively produced are different. Certainly, according to the Horn specification, the air blowing taught by him is not the cause of the "very little tendency to crack at the sealing-in point" and is a very different operation from the artificial cooling or air blowing referred to in the claims in conflict.

In view of what I have said it is not necessary to consider the evidence of Mr. Rose or that of Mr. Shapiro but, since counsel for the defendant relied so strongly on Mr. Shapiro's evidence, I should, perhaps, comment on it.

The circumstances leading to the evidence being adduced are of interest. Mr. Rose expressed the opinion that if air was blown on the stem only up to pull-down, as disclosed in the Horn specification, the strain pattern would be random or haphazard. He also pointed out that strains cannot be set in glass when it is plastic and that, consequently, strains could not be set in Horn's novel stem with the thinned edge during the pull-down operation for it was then still plastic. Other opinions were also expressed, namely, that if the central portion of the stem is allowed to cool naturally tension strains will result in it and that if the central portion was above the lower point of the annealing range and air is blown against it only up to pull-down, as taught by the Horn specification, it will cool naturally after pull-down and end up with a tension strain in it. Furthermore, Mr. Rose stated that a stem made according to Horn's method of making his novel stem will have a tension strain in the central portion and Mr. Shapiro agreed that this would probably be so. In that event, since Horn starts with a stem having a tension strain in the central portion, he will likely end with such a strain since he does not take steps to prevent it. But when Mr. Rose was asked whether cracks occur in the stem when there has been a sealing-in operation according to the Horn teaching he could not give a direct answer for he had not made any experiments to see.

This fact led counsel for the defendant to give instructions for the making of the tests regarding which Mr. Shapiro gave evidence. The purpose of the tests was two-fold, firstly, to prove the truth of Horn's statement in his specification that he has found that tubes made in accord-

ance with his invention produce satisfactory seals which have very little tendency to crack at the sealing-in point and, secondly, to prove that if a person skilled in the art at the date of Horn's specification proceeded as he directed he could control strains and prevent cracking strains and thus demonstrate that the Horn specification supports claims C1 and C5. The tests have no bearing on claim C2.

Counsel for the plaintiff was not given any notice of the proposed tests and objected to evidence of them but I allowed it to be given. Whether I was right in so doing is really a matter of academic interest in view of the conclusion I have reached as to the value of the evidence.

I need not review Mr. Shapiro's evidence in detail. It will be sufficient merely to mention its salient features. He made two sets of tests. The first was on a single head sealing-in machine, but it was not satisfactory for several reasons which need not be referred to. The second was on an old 8 station Eisler sealing-in machine of the kind that Horn probably used, although there is no statement in his specification that he did so. Mr. Shapiro did his second series with the blowing of air against the body of the stem only up to pull-down in purported conformity with Horn's direction but he did the pull-down operation between stations 6 and 7 and applied a radiant heater to the completed tube after the pull-down operation. Mr. Shapiro stated that he made the tests to see whether he could control strains in the stem and the seal region of the completed tube and said that he was able to control the strain pattern in the stem and in the seal region. There were compression strains in the central portion and radial tensions strains at the seal region. He checked these strains on a polariscope. He also found some cracks but they were partly pre-cut-off cracks but, basically, his finding was that the tubes which he produced on his tests had very little tendency to crack at the sealing-in point.

I must say that I was not favorably impressed with Mr. Shapiro's evidence. In the first place, it is plain that the tests were not done with the same kind of materials or by the same kind of methods as those disclosed in Horn's specification. On his cross-examination Mr. Shapiro admitted that there were several differences between the materials and methods he used in his tests and those that would have been available to a person skilled in the art at the date of

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the Horn specification who had only its disclosures to guide him. I enumerate these differences briefly. Mr. Shapiro used a Bantol stem and clipped its lead-in pins. These were three-piece pins of various metals, 52 alloy, Dumet and nickel, whereas Horn's lead-in pins were of chrome iron. There was a difference in the thermal conduction of the two types that would affect the result. The pins were also of smaller diameter than those specifically referred to in the Horn specification, which would also make a functional difference, although it was contended by counsel for the defendant that the Horn specification covers lead-in pins of the kind used. And Mr. Shapiro admitted that Dumet lead-in pins were less likely to result in strip leads, that is to say, cracks along the lead-in pins where they join the glass stem. The stem which Mr. Shapiro used was different from the novel stem which Horn found so essential. It was a Bantol stem. It did not have the thickened central portion of the Horn novel stem but was thinned at the centre where it met the exhaust tube, nor did it have the same thinned edge as the Horn stem, and the top of the edge was not in the same plane as the top of the stem. Moreover, the stem was not made in the same way as the Horn stem. That stem, according to the undisputed evidence, had a tension strain in the central portion when it came off Horn's stem making machine, whereas the Bantol stem which Mr. Shapiro used had a compression strain in its central portion. Moreover, the mount pin used in the tests was not like that used by Horn, the lower shoulder being smaller in diameter than the upper, the reverse of the Horn mount block, with the result that it would take slightly longer to make the join between the stem and the bulb than with Horn's mount block and so affect the cooling. And it was shown that Mr. Shapiro used a radiant heater for annealing purposes after the pull-down which would affect the strain pattern in the glass in that it would reduce strains in it, whereas, according to the Horn specification, there is no intervening operation between the pull-down and taking the tube off the sealing-in machine for exhaustion. And, finally, it was shown that Mr. Shapiro did the pull-down operation between stations 6 and 7, whereas the weight of evidence is that Horn did it between stations 7 and 8 although there is no direct reference in his disclosures to that effect. It was also shown that Mr.

Shapiro did several things in the course of his tests to which there is no reference in the Horn specification, such as tacking the bulb wall to the stem before leaving station 3 on the machine in order to avoid puffy seals prior to cutting off the cullet. In view of these differences counsel for the plaintiff submitted that the evidence of the tests has no weight. I agree.

Moreover, it is plain that the tests were made by Mr. Shapiro, whose professional qualifications are of a high order, with full and detailed knowledge of the Seelen process, for he had been an employee of the plaintiff before being engaged by the defendant, and with the expert knowledge of the present time. He admitted that it would be very difficult to divorce himself from that knowledge and put himself in a position similar to that of a person skilled in the art at the date of the specification and with that admission there cannot be any disagreement. But Mr. Shapiro said that he thought that a person having only the knowledge of a person skilled in the art at the date of the specification could then have done what he did and come to the same conclusion. I do not see how such a person could have done so and I reject this statement and opinion.

Indeed, Mr. Shapiro came out of his tests basically with a Bantol tube, which is not surprising since he started out with a Bantol stem. Counsel for the defendant contended that this was covered by the Horn specification but it is not for this Court in these proceedings to express an opinion on this submission and I refrain from doing so.

Finally, the evidence is plain that the tests were rushed and that there were no tests conducted with artificial cooling after the pull-down operation. There was no time for them. It might have been interesting to see what the result of such tests would have been. They might have shown compression strains at the seal region instead of the tension strains which Mr. Shapiro found.

In my opinion, the tests are subject to serious criticism and do not serve the purposes for which they were made. I find the evidence unsatisfactory. In my judgment, it does not destroy the value of the opinions expressed by Mr. Rose. And, most certainly, it does not show that the disclosures in Horn's specification support the claims in conflict.

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Under the circumstances, I find without hesitation that the defendant is not entitled to any of the claims in conflict. Having thus determined the first issue against the defendant I now proceed to consideration of the second one. Put briefly, this is that although Horn and, therefore, the defendant, is not entitled to the claims in conflict on the ground that his specification does not support them he was in fact the first inventor of the invention defined in them, even although he did not disclose the fact in his specification, and that, consequently, Seelen and, therefore, the plaintiff is not entitled to them.

The onus of proof in this issue rests on the defendant. It is a heavy one. *In Christiani & Nielsen v. Rice*¹ Rinfret J., as he then was, in delivering the judgment of the Supreme Court of Canada and after referring to the decision of the Judicial Committee of the Privy Council in *The Canadian General Electric Company, Limited v. Fada Radio, Limited*², said, at page 456:

The holding here, therefore, is that by the date of discovery of the invention is meant the date at which the inventor can prove he has first formulated, either in writing or verbally, a description which affords the means of making that which is invented.

Counsel for the defendant referred to this statement and made a submission to the effect that it was not an exclusive statement, to which I shall refer later, but, at the moment, I refer to the statement in the case relating to evidence of knowledge or use of an invention prior to that asserted by an applicant, at page 452:

Evidence of this character should be subjected to the closest scrutiny.

It is with that admonition in mind that I should scrutinize the evidence purporting to prove that, although Horn did not disclose the fact in his specification, he was in fact the first inventor of the invention defined in the claims in conflict. The onus of proof of this assertion is a very heavy one.

Before the issue can be determined it is essential to ascertain what Mr. Seelen actually invented. This depends not only on the disclosures in the specification of his application but also on the facts for just as the second issue, so far as the defendant is concerned, depends not on what Horn disclosed in his application as being his invention but

¹ [1930] S.C.R. 443.

² [1930] A.C. 97.

on what in fact he did invent, so also the fact of whether Horn was the first inventor of the invention defined in the claims in conflict depends not only on what Seelen disclosed in his specification but also on what his invention really was apart from whether he disclosed it in his specification or not. Here I should comment briefly on the argument advanced by junior counsel for the plaintiff that once it has been decided that the defendant is not entitled to the claims in conflict it has no status to contest the right of the plaintiff to them. In view of the conclusion I have reached on the facts of the second issue, I need not express an opinion on the objection thus taken.

I should, perhaps, recall what I said earlier in these reasons for judgment about the different terms used in the art, at the time of the specifications in question, to designate the same thing. Consequently, in discussing the Seelen specification I shall refer to the parts mentioned by him by the terms which he applies to them just as when I referred to the Horn specification I used the terms that he did. But for purposes of convenience I shall put into brackets, on the first appearance of the use of a term by Seelen, the corresponding term used by Horn.

Mr. Seelen states in his application that he has made an invention entitled Glass Envelope Seals and that his invention relates particularly to seals for glass envelopes of radio tubes. He points out that difficulty is experienced in making the disc-to-shell seal without producing excessive strains in the relatively large glass mass of the disc (stem) or in the wall of the shell (envelope) near the disc and that it is particularly difficult to rapidly make good seals in the factory where speed is essential and that cracking during or after sealing results in large numbers of defective tubes. He then says that the object of his invention is an improved method of making a strong hermetic seal between the glass disc header (stem) and shell of a radio tube envelope, the disc and seal region being free of harmful strains. It is thus clear at the outset that Seelen was addressing himself to the problem of making miniature glass radio receiving tubes on a mass production basis and that his object was that the disc and seal region should be free of harmful strains so that cracking should not result. It is also clear that he was thinking of radio tubes where the lead-in pins

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(lead-in rods) of the disc would serve as the contact pins of the tube. For that reason he specifies that if the lead-in conductors (lead-in rods) are large and employed as the contact pins of the tube, the disc must be quite thick and strong to support the lead-in conductors.

Seelen starts with a general description of his sealing-in process including loading and pre-heating. The shell of the radio tube envelope is telescoped over the electrode assembly (mount) with the rim of the shell contiguous the edge of the glass disc header. Preferably, the rim overlies the edge of the header although the shell rim may abut the upper side of the header. The contact pins, arranged in a circle, and hermetically sealed through the disc and connected to their respective electrodes of the assembly are inserted in holes or wells in the upper end of the spindle chuck (mount block). The depth of the wells (holes) is preferably less than the length of the pins so as to hold the glass disc slightly above the upper surface of the chuck. The envelope shell is held in place by the flexible edges of the insulating spacers of the electrode assembly, or if desired, a separate collet auxiliary aligned with the chuck may be employed to hold the shell until it is joined to its header. So far, the loading portion of the Seelen Sealing-in process has been described. The process is then further described. Gas burners (flames) are pointed and focused upon the rim of the shell opposite the edge of the header and for uniform heating along the periphery of the header the chuck is rotated in the flames. Then there is a reference to preheating. The chuck is preheated with burners to a temperature preferably below 300°C or the deformation temperature of the glass in order to heat the header by radiation to a slightly elevated temperature until it enters the sealing fires. Good results have been obtained by heating the chuck to 260°C. In this way no excessive heat shock is transmitted to the stem on encountering the sealing fires. Sealing speeds may be increased by also preheating the headers. By heating the header to about chuck temperature, say 260°C, the header temperature will drop but little and the hard sealing fires can be applied soon after the header and the shell are loaded on the chuck. Thus, there is a detailed statement of the steps in the sealing-in process prior to the application of the sealing fires.

Then Seelen states what he proposes to do according to his invention, namely, to cool the center portion of the glass disc while its edge is raised to sealing temperature and also to hold the temperature of the relatively large mass of metal of the contact pins well below glass sealing temperature so that the temperature of the pins and the center portion of the disc is prevented from being raised above the preheat temperature by the sealing fires. Then he says that in the case of commercial soft glass this temperature is preferably held at 300°C or less, which is below the deformation temperature of the glass. The evidence is that it is also below the bottom of the annealing range. It is then stated that by controlling the temperature of the centre of the disc and the pins during sealing, the seals may be heated and cooled rapidly, imposing sudden temperature changes on the glass that would be expected to fracture it. Oxidation of the metal parts connected to the pins is minimized. Seelen then says that he has found the most convenient way of cooling the center of the disc and the pins is by a blast of air slightly above room temperature directed to the bottom center of the disc from the air duct comprising a small vertical bore through the center of the spindle chuck or, alternatively, the disc may be cooled by mechanical contact with the center of the chuck or by air admitted to the lower ends of the contact pin wells.

The next statements are of such particular importance that I quote them in full: "I have found the distribution of compressional strains and tensional strains, usually represented by isoclinic lines concentric with the disc and slightly wavy opposite the contact pins, may be accurately controlled by adjustment of the sealing flames and the supply of air at the centre, and I have found it to be possible to control the nature of the strains in the seal region itself. In factory practice best results may be obtained by adjusting the flames and air so as to produce a neutral to slight compressional strain along the outside edge of the disc."

The evidence establishes the desirability of having compressional strains and avoiding tensional strains in points of weakness in the finished tube and such points would be where the lead-in pins are sealed into the glass of the stem and at the seal region where the stem and bulb are joined.

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The current philosophy in the art was that all strains in glass were bad and should be prevented, if possible, or, at any rate, minimized, but Mr. Seelen stated that in his experiments he found certain strains in completed tubes and yet the tubes were good. He studied the strain patterns in such tubes with the aid of a polariscope and came to the conclusion that if he produced tubes with similar strains in them the tubes would be good. To that extent, the teachings of the old philosophy about strains had to be modified. There were some strains such as compressional ones that were desirable. Seelen found that the distribution of strains could be accurately controlled by adjustment of the sealing flames and the supply of air at the center and he also found it possible to control the nature of the strain in the seal region. For example, he could produce a slight compressional strain along the outside edge of the disc. This invention of the means for controlling strains in miniature glass radio receiving tubes is his contribution to the art.

After descriptions and dimensions of some of the parts Seelen describes a sealing-in process and says that it will be obvious to those skilled in the art that many variations and adjustments may be made in the fires and air flow to obtain the desired results and reveals that experience has shown that for any burner setting, the strain pattern in the glass is quite sensitive to the air flow.

His sealing-in process is done on a conventional 16-head "Sealex" machine on which the spindle chucks are held about seven seconds in each indexing position and the chucks are rotated as they come to rest in front of variously adjusted burners with flames of commercial illuminating gas. A detailed description of what happens at each of the 16 positions of the machine is given in the specification, but I need refer only to certain features of it. In position 8 the rim of the shell is sufficiently soft to weld with the header. This is the joining of the stem and the bulb. In positions 8 and 9 the fires are removed and air at the proper pressure is admitted to the interior of the shell through the exhaust tube to force out and shape the soft wall of the shell just above the seal. This is the shaping according to the Seelen invention, as contrasted with the shaping according to the Horn one by the pull-down operation. But the outstanding difference is in the use of air. In the Seelen invention air is admitted through the central bore in position 7 and the

air rate is increased in positions 8 and 9. This is before shaping. But the air blowing is continued after shaping. In position 9 the stem is cooled by admitting air to the spindle chuck and the cooling continues in positions 10, 11 and 12. And in position 11 the shell is annealed.

Thus, apart from other differences between the Horn and Seelen inventions, as disclosed in their respective specifications, there is the marked difference that in the former the blowing of air against the stem is only for the short period already described up to the pull-down operation, whereas in the latter the air cooling of the stem continues for a considerable period after the shaping of the bulb. This enables a control of strain pattern in the body of the stem and in the seal region to be effected which the Horn invention, as disclosed in his specification, cannot accomplish.

Notwithstanding the difference in the disclosures of the specification, evidence was led in an effort to show that, in fact, Horn did blow air against the body of his novel stem after the pull-down operation and did air cooling after shaping before Seelen did and was, consequently, the first inventor of the invention defined in the claims in conflict. This second issue depends not on what Horn disclosed in his specification but on what, in fact, he invented, regardless of whether he disclosed it or not.

The principal witness in support of this issue was Mr. James Kyle, a mechanic in the defendant's employ, who had worked under Horn's direction. I need not set out his evidence in detail. It will be sufficient to mention its salient features. At the time with which we are concerned he was in charge of the maintenance of equipment and helped set it up for Horn's use. He helped him with his stem machine. Early in 1938 he worked with him when he was conducting his experiments towards the production of what was subsequently the Loktal tube. He was very close to him as his utility man and helper. Horn started sealing in tubes early in July of 1938 and Kyle made a sealing-in pin for him, of which he later made several modifications under Horn's direction. At first, the experiments conducted by Horn were with dummy tubes, that is to say, tubes with stems without any mount assembly, and later, experiments were made on an 8-head Eisler sealing-in machine. At first, the pull-down operation was done manually. The tubes so produced had toed-out and toed-in lead-in pins and there were cracked

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seals and cracked stems. Kyle then put a new track around the base of the Eisler machine to provide for an automatic pull-down. He put a drop in this track, so he said, between positions 6 and 7 of the machine. At position 6 he drilled a hole in the track so that a jet of air might be blown up into the central bore of the spindle and the mount block as it got to position 6. This track was built in July of 1938. At this stage of the experimentation the bulb and the stem were joined at position 5, a jet of air was blown through the central bore at position 6 and the cullet was blown off. The pull-down operation was, he said, between positions 6 and 7. There were annealing fires at position 7, but nothing was done at position 8, except that the sealed tube was taken off the sealing-in machine and put into the exhaust machine which was nearby. In this test, Kyle said, there were no cracks in the tubes, but there were toed-out and toed-in lead-in pins. The toed-out pins were the result of the sealing-in pin then used, which had apertures between its so-called castles, which did not hold the pins securely. The pins were toed-in because the stem was soft when it was taken off the machine at station 8 so that when its exhaust tube was pushed into the rubber port of the exhaust machine it pushed the centre of the stem up and caused the pins to toe-in. The results of this test did not bother Horn. But on his instruction Kyle made a new sealing-in pin with holes drilled in it to receive the lead-in pins securely. An example of this sealing-in pin was not produced but Kyle made a sketch of it. After this sealing-in pin was used another run was made. The use of the new pin eliminated the toeing-out of the lead-in pins, but the toeing-in still remained. The machine was running at the rate of about 200 tubes an hour. This run occurred in the last part of July in 1938. Then, Kyle said, he drilled holes in the track at positions 7 and 8 and put air jets there. Then another run was made. In this run the cullet was cut off at position 6, as previously, and air was blown at position 7 after the pull-down and also at position 8. There were cracks across the stem but no cracks at the seal region. There was no toeing-out or toeing-in of the lead-in pins. The cracks across the stems were because Horn could not regulate the air flow. Then he used air pressure gauges or manometers to control the air pressure and finally controlled the situation so that there were no cracks across the stem or at the seal region

and no toe-out or toe-in of the lead-in pins. Indeed, according to Kyle, he was producing perfect bulbs and the problem of cracks had been beaten. All this had happened by the last week of July of 1938. Later, when Kyle went on a night shift at the beginning of November in 1938 he was the senior person in charge of the production of Loktal tubes at this shift. There were no tubes with toed-out pins but toed-in pins still occurred due to improper air regulation and Kyle said that he corrected this difficulty when it occurred by adjusting the air pressure with the aid of the manometers at positions 7 or 8. On his cross-examination, he said that the tubes were taken off the sealing-in machine immediately at position 8 and that the stems were then still hot and soft.

The only corroboration of Kyle's evidence was Mr. Krim's statement that he had seen air gauges or manometers at Horn's workshop and Mr. Homer Anderson's statement that in April 1939, when he made certain tests at Raytheon, he found that air was used at stations 7 and 8.

The important portion of Kyle's evidence is, of course, his statement that Horn did the pull-down operation between positions 6 and 7 of the Eisler sealing-in machine and continued to blow air on the stem of the tube at positions 7 and 8. There are serious objections to accepting this evidence. There is no supporting evidence except the statements of Mr. Krim and Mr. Homer Anderson to which I have referred. There are no corroborating drawings, sketches, notes, instructions or memoranda such as one might expect to find. Even the drawing referred to in Horn's affidavit, if it existed, was not produced. And it is to be noted that Mr. Horn was not called as a witness nor was there any evidence on commission from him. He would have been able, better than anyone else, to tell whether he made an invention so different from that which he disclosed in his specification as Kyle said he did.

Kyle's statement that Horn made use of air-blowing after the pull-down operation is contrary to other more credible evidence. It runs counter to Horn's own statement in his specification. In my opinion, if Horn actually did what Kyle said he did it is inconceivable that he would not have mentioned the fact in his specification. Indeed, his specification flatly contradicts the evidence. It gives a

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graphic description of the steps taken by him, not at positions, it is true, but by a sequence of events, namely, the application of heat, the constriction of the skirt of the envelope, the blowing of air to assist in cutting off the cullet, the moving out of the region of the flames, the blowing of air to cool the body of the stem, the pull-down operation and the tube being ready for exhaustion. The fact that there is no reference to air blowing after the pull-down is a refutation of Kyle's evidence that there was any such air blowing. And the evidence is inconsistent with the fact that when the tube was taken off the sealing-in machine at position 8 it was still hot and soft.

Moreover, the weight of the evidence is overwhelmingly against Kyle's statement that the pull-down operation was between stations 6 and 7. Mr. Riches' letter, based on information obtained from the defendant that the pull-down operation took place between stations 7 and 8, is conclusive of that fact. Kyle was plainly in error in his statement. He may have been led into such error by reliance on the sketch, Exhibit Z18, which was shown to him two days before he gave his evidence, in which it appeared that the pull-down operation happened between positions 6 and 7. There was no evidence of who made the sketch or how it came into being. I would rather think that Kyle was mistaken in his recollection than that he told an untruth, but I must say that I do not believe his statement that Horn did the pull-down operation between positions 6 and 7. There is no justification for concluding otherwise.

That being so, and the pull-down operation having been made between positions 7 and 8 there was not much time for air blowing after pull-down, if there was any at all, in view of the fact that the operator of the Eisler sealing-in machine took the tube off the machine as quickly as possible after its arrival at position 8, and it was then still hot and soft. That amount of air blowing could not be equal to or have the effect of the artificial cooling practised by Seelen after his shaping of the bulb at the seal region.

Only a brief reference to Mr. Anderson's statement that there was cooling air after cut off, "the regular amount of air that we were using on the seventh and eighth positions on the sealing-in machine" need be made. This was a statement made in respect of an activity in April of 1939. This

cannot be considered as proof that Horn blew air at positions 7 and 8 after pull-down and made an invention different from that which he disclosed.

Having found, as I have done, that Horn did not make his pull-down operation between positions 6 and 7, as Kyle said he did, but that he made it between positions 7 and 8, as Mr. Riches' letter, based on information from the defendant, plainly stated, and as his specification indicates, notwithstanding the fact that there is no mention in it of positions, I have no hesitation in finding that the defendant has not discharged the burden of proof that rests on it in respect of the second issue. I go further, and find as a fact that Horn was not a prior inventor to Seelen of the invention defined in the claims in conflict and I, consequently, determine the second issue in this case against the defendant.

In view of this finding I need not consider whether there was any "formulation" within the meaning of the statement of Rinfret J. in the *Christiani* case (*supra*) nor the ambit of that statement. Nor need I consider the other objections to Kyle's evidence taken by counsel for the plaintiff or the reply of counsel for the defendant to them.

Before I conclude these reasons for judgment I should sound a note of caution that my findings do not put an imprimatur of validity on the claims in conflict *vis-a-vis* the Seelen application, beyond the fact that the Commissioner must now issue a patent to the plaintiff, as assignee of Seelen, containing them. But their validity is a matter for determination only in an action for infringement or for impeachment if such proceedings should be taken.

For the reasons given, the judgment of the Court in the present proceedings must be that as between the parties the plaintiff is entitled to the issue of a patent containing the claims in conflict and that it is entitled to costs to be taxed in the usual way.

Judgment accordingly.

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BETWEEN:

CIBA LIMITED APPELLANT;

AND

THE COMMISSIONER OF PATENTS .. RESPONDENT.

Patents—Appeal from decision of Commissioner of Patents—Patent Act, R.S.C. 1952, c. 203, ss. 2(d), 44—Difference between process and method—Patentability of process of applying known method of reaction to known reactants resulting in discovery of unobvious utility of substances thereby produced.

The applicants, the assignors of the appellant, had filed an application for a patent containing three claims for certain chemical compounds and three claims for the process of making them. It was agreed that, although the reactants referred to in the product claims were known chemical compounds, the applicants were the first persons to react them and to discover their unobvious useful properties as disinfectants and preservatives. The compounds were thus new and useful and the discovery of their unobvious useful properties was an inventive act. The Commissioner allowed the claims for them but refused to allow the claims for the process by which the substances were produced on the ground that the process was not new. The appellant appealed from his decision. It was agreed that the reaction between reactants of the general type specified in the product claims, which were known chemical compounds, was a known and classical type of reaction, but it had never before been applied to the said reactants. It was also agreed that if a person skilled in the art had been asked to produce the products defined in the product claims he would have known that the process defined in the process claims could have been used for the purpose.

Held: That there is a difference between "process" and "method" or "procedure", that there cannot be a process by itself, but that it must consist of two elements, namely a method or procedure and the material or materials to which it is applied.

2. That when a process consists in the application of a known method to known materials but it has not previously been applied to them and the use of the process results in the production of a new substance then the process by which such new substance is produced is a new process.
3. That, since no one, prior to the invention, had applied the known classical method of reaction to the particular reactants specified in the product claims but that when the inventors did so they produced the new products defined in them, the process by which they did so was new.
4. That when a process consists in the application of a known method to known materials but it has not previously been applied to them and the use of the process results in the production of a substance that is not only new but also valuable for its unobvious useful qualities the process by which such substance is produced is patentable.
5. That the applicants made an inventive step when they applied the known classical method of reaction to the particular reactants specified

in the product claims and discovered that by doing so they could produce the new and useful disinfectants and preservatives and that when they discovered their unobvious utility they also discovered the unobvious utility of the process by which they had produced them.

6. That the fact that the discovery by the applicants of the unobvious utility of their process may have flowed from their discovery of the unobvious utility of the substances produced by it does not deprive their concept of reacting the particular reactants and thus producing the new and useful substances of its inventive character.
7. That the process claims are patentable and the appeal from the Commissioner's decision is allowed.

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APPEAL from decision of the Commissioner of Patents.

The appeal was heard before the President of the Court at Ottawa.

Christopher Robinson, Q.C., and *R. S. Smart* for appellant.

K. E. Eaton and *R. W. McKimm* for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (June 7, 1957) delivered the following judgment:

This is an appeal pursuant to section 44 of the *Patent Act*, R.S.C. 1952, Chapter 203, from the decision of the Commissioner of Patents, rendered on January 21, 1955, refusing to allow the process claims contained in the application for Letters Patent of Max Hartman and Werner Bosshard, of Riehen in Switzerland, the assignors of the appellant, filed on October 16, 1945, under serial number 533,000.

The application was for an invention entitled "Phenoxyethyl-ammonium compounds and process of making same, also their use as disinfecting and preserving preparations", containing six claims reading as follows:

1. Process for the manufacture of new phenoxyethyl-ammonium compounds, comprising reacting N-phenoxyethyl-dimethyl-amine with a reactive ester of a hydrocarbon alcohol containing at least 8 carbon atoms.
2. Process as claimed in claim 1, comprising reacting N-phenoxyethyl-dimethyl-amine with a dodecyl halide.
3. Process as claimed in claim 2, comprising reacting N-phenoxyethyl-dimethyl-amine with dodecyl-bromide.

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4. A quaternary compound of N-phenoxyethyl-dimethyl-amine which has a hydrocarbon radical with at least 8 carbon atoms linked to the quaternary nitrogen atom.
5. A β -phenoxyethyl-dimethyl-dodecyl-ammonium-salt.
6. β -Phenoxyethyl-dimethyl-dodecyl-ammonium-bromide.

The Commissioner allowed the product claims 4, 5 and 6 but refused to allow the process claims 1, 2 and 3. It is from this refusal that the appeal is brought.

As I read the Commissioner's decision his basic objection to the process claims was that the process defined in them was not new. He agreed with the Examiner's view that "the process claims are not rendered patentably new merely because they may be employed to produce new and patentable products", and then proceeded to say:

In my opinion there is no room for argument at all. A standard classical reaction is used to react two compounds, each having a well known and defined radical capable of reacting in a standard manner with the other radical and there is no problem or danger of any side reaction.

In this case the novel conception was the new quaternary compounds; once the new compounds were envisaged, there was no problem or difficulty in the production of the compounds. The only inventive step, if any in this case, is the discovery of certain properties in certain phenoxyalkyl-ammonium salts and this fact, in itself, is obviously insufficient to render patentable an old classical method of preparing this type of substance.

Counsel for the parties reached an agreement as to facts in the following terms:

The parties agree that this appeal should be heard on the basis of the documents already filed and the following facts:

1. The products claimed in claims 4-6 of the application are patentable since they are useful as disinfectants and preservatives and the persons named as inventors in the application were the first to produce them or suggest their production and to discover their utility which was not previously obvious.
2. The process claimed in claims 1-3 of the application is one for the production of the products claimed in claims 4-6.
3. As of the date when the process claimed in claims 1-3 of the application was first carried out by the persons named as inventors in the application, the reaction between reactants of the general type specified in claims 1-3 of the application was a known and classical type of general reaction, though it had never been applied to the particular reactants specified in these claims which reactants were, however, known chemical compounds.
4. Had a person skilled in the art desired, at the date referred to in paragraph 3, to produce the products claimed in claims 4-6 of the application he would have known that the process claimed in claims 1-3 could be utilized for that purpose.

It is conceded that the products defined in claims 4, 5 and 6 are patentable. Although the reactants referred to in them were known chemical compounds the applicants were the first persons to react them and to discover their unobvious useful properties as disinfectants and preservatives. The products were thus new and useful and the discovery of their unobvious useful properties was an inventive act. Consequently they had, in the terms of the text books and decisions, all the necessary attributes of patentability, namely, novelty, utility and lack of obviousness.

The sole issue is whether the process defined in claims 1, 2 and 3 is patentable. It is essential to its patentability that it should be an invention within the meaning of section 2(d) of the *Patent Act* which provides:

2. In this Act, and in any rule, regulation or order made under it,
(d) "invention" means any new and useful art, process, machine, manufacture or composition of matter, or any new and useful improvement in any art, process, machine, manufacture or composition of matter;

It is agreed that if a person skilled in the art had been asked to produce the products defined in the product claims he would have known that the process defined in the process claims could have been used for the purpose. But it is important to keep in mind that he would have had to be told the composition of the products defined in the product claims. Moreover, while the method of reacting compounds of the general type of the reactants specified in the products claims was known, it had never, prior to the invention, been applied to the particular reactants specified in them and, prior to the invention, it would not have occurred to anyone to apply it.

The issue whether the process defined in claims 1, 2 and 3 is patentable raises an interesting question, namely, whether a patent should issue for a process by which a patentable product is produced by a process consisting of the application of a known method to known materials when it has never previously been applied to them and the usefulness of the resulting product was not obvious and had not been discovered. I am informed that there are many applications pending in the Patent Office in which a question similar to the one here in issue has arisen.

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The question is, therefore, important as well as interesting. It is also novel in Canada for it has not arisen for consideration in any previous Canadian case. The decision in *Hoffman-La Roche Limited v. Commissioner of Patents*¹ has, in my opinion, no bearing on it. But the question was carefully considered in a recent English case, *In re May & Baker Limited and Ciba Limited*². There the Court had to consider a petition to revoke a patent granted to May & Baker Limited and Ciba Limited jointly and a motion by them for leave to amend the patent, the petition and the motion being heard together. The case involved a good many issues that have no bearing on the problem under review and I shall confine my discussion of it to those that are relevant.

The invention was described in the specification of the patent under attack as "Manufacture of new benzenesulphonamido-derivatives" and was said to consist in a manufacture of new para-amino-benzene-sulphonamido-thiazoles. It was stated that these find application in therapeutics and have chemotherapeutic activity in streptococci infections and similar illnesses and two specific examples of the products, known as sulphathiazole and sulphamethylthiazole, were given with figures showing their high remedial effect and low toxicity. There were 5 claims in the patent, 4 being process claims and 1 a claim for the process produced products. By the proposed amendments the respondents sought to restrict the patent to claim only the two products specifically mentioned when prepared or produced in the manner specified.

The petition for revocation was based on several grounds but I shall refer only to the attacks based on the allegations of lack of novelty and lack of subject matter. The petitioners also opposed the motion for leave to amend on the ground, *inter alia*, that the patent as amended would claim an invention substantially different from that claimed in the unamended patent. The case came on for trial before Jenkins J. in the Chancery Division of the High Court. He held that the attack on the patent for lack of novelty failed but the patent was bad for lack of subject matter in that it extended to substances that were not useful and decided that it must be revoked. He also dismissed the motion for

¹ [1954] Ex. C.R. 52; [1955] S.C.R. 414.

² (1948) 65 R.P.C. 255; (1949) 66 R.P.C. 8; (1950) 67 R.P.C. 23.

leave to amend on the ground, *inter alia*, that if the patent was amended as proposed it would claim an invention substantially different from that claimed in the original patent. The case then went to the Court of Appeal and by leave to the House of Lords. In the Court of Appeal and in the House of Lords the respondents did not attempt to defend their unamended patent and the petition for its revocation was not discussed before them, the arguments being confined to the admissibility of the proposed amendments. The Court of Appeal agreed unanimously that they were not admissible and the House of Lords dismissed the appeal to it by a majority vote of three to two.

I have already referred to the fact that in dealing with the petition to revoke the patent Jenkins J. held that the attack on the patent for want of novelty failed. After referring to certain prior publications and the fact that certain methods referred to in the specification in the patent were known, he said, at page 279:

The fact that the methods described in the specification were in themselves known methods being admitted on the face of the specification itself, it is obvious that the Respondents could only claim novelty for them as part of the entire process consisting of their application to the particular classes of materials described in the specification so as to produce the new substances claimed. If the entire process was in fact new, in the sense that no one had done or projected the doing of it before, and that the new substances produced had never been made or projected before, then, assuming subject-matter, as it is right to do in considering novelty, I think the objection based on want of novelty must fail.

It is interesting to note that in considering novelty Jenkins J. assumed subject matter. It is always important to remember that these two attributes of patentability are not the same. Jenkins J. realized the difference between them as clearly as it was put by Lindley L.J. in *Gadd and Mason v. The Mayor of Manchester*¹ where he said:

In considering subject-matter, novelty is assumed; the question is whether, assuming the invention to be new it is one for which a patent can be granted. In considering novelty, the invention is assumed to be one for which a patent can be granted if new, and the question is whether on that assumption it is new. Has it been disclosed before? If there is an earlier specification for the very same thing, the second invention is not new; but if the two things are different, the nature and extent of the difference have to be considered.

It is also clear that there is a difference between "process" on the one hand and "method" or "procedure" on the other.

¹ (1892) 9 R.P.C. 516 at 525.

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There cannot be a "process" by itself. It must of necessity consist of two elements, namely, a method or a procedure and the material or materials to which it is applied. A process implies the application of a method to a material or materials.

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I must say that I find the reasoning in the statement of Jenkins J. convincing and I adopt it. The effect, to use terms applicable in Canada, is that when a process consists in the application of a known method to known materials but it has not previously been applied to them and the use of the process results in the production of a new substance then the process by which such new substance is produced is a new process. In my opinion, this principle is applicable to the facts of the case under review. As I have already stated, no one, prior to the invention, had applied the known classical method of reaction to the particular reactants specified in claims 4, 5 and 6, such reactants being themselves known, but when the inventors did so they produced the new products defined in the claims. The process by which they did so was, consequently, new. It follows that I must find that in so far as the Commissioner's refusal to allow the process claims was based on his opinion that the process defined in them was old and unpatentable on that account it was erroneous. In my judgment, the process defined in claims 1, 2 and 3 was new.

But that finding is not sufficient to warrant the allowance of the appeal from the Commissioner's decision. If the process claims are to stand it must be shown that the process defined by them possesses, in addition to novelty, the other necessary attributes of patentability and here I again refer to the *May & Baker Limited* case (*supra*). There Jenkins J., after finding that the attack on the patent for lack of novelty failed, laid down certain principles relating to subject matter. At page 281, he said:

I should, I think, endeavour to state the principles on which, and limits within which, an invention consisting of the production of new substances by known methods from known materials can be supported from the point of view of subject-matter. I understand them to be these:

(i) An invention consisting of the production of new substances from known materials by known methods cannot be held to possess subject-matter merely on the ground that the substances produced are new, for the substances produced may serve no useful purpose, in which case the inventor will have contributed nothing to the common stock of useful knowledge (the methods and materials employed being already known) or of useful materials (the substances produced being, *ex hypothesi*, unless)

(ii) Such an invention *may*, however, be held to possess subject-matter provided the substances produced are not only new but useful, though this is subject to the qualification that the substances produced must be truly new, as opposed to being merely additional members of a known series (such as the homologues) and that their useful qualities must be the inventor's own discovery as opposed to mere verification by him of previous predictions.

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There was also a third principle but it related to selection patents and need not be cited.

Applying these principles to the facts before him Jenkins J. concluded that the patent was bad for lack of subject-matter in that the products described and claimed were, as a class, not useful. The proved utility of the two products referred to in the specification as special examples, namely, sulphathiazole and sulphamethylthiazole, was not sufficient to provide subject matter for the invention as a whole. Consequently, since the patent extended to products that were not useful it was bad for lack of subject matter and he ordered its revocation. There were other objections to the patent that need not here be referred to. Since Jenkins J. found that there was no utility for the whole range of products covered by the specification there was no need to consider whether there was obviousness in the invention or not.

It is apparent from this statement of principles that the attack on the patent for lack of subject matter would have failed if the substances produced by the process claimed had been useful and their utility was the inventor's own discovery and was not obvious. And it is to be noted that Jenkins J. was considering the validity of 5 claims of which 4 were process claims.

And there can, I think, be no doubt that if the applicants for the patent had confined themselves in the first place to the manufacture of the two products specially mentioned by them, namely, sulphathiazole and sulphamethylthiazole, their claim would have met the tests of patentability set out in the statement of principles and the attack for lack of subject matter on the ground that the claims extended to products that were not useful would have failed.

After deciding that the patent must be revoked, Jenkins J. considered the motion for leave to amend and dismissed it on the ground, *inter alia*, that the amended patent would claim an invention substantially different from that claimed by the unamended patent and that this was not permissible

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under section 22 of the English Act. In considering what the invention covered by the patent was he said, at page 295:

Now it seems to me that in considering this question one must begin by determining what is the character of the inventive step to which the invention as claimed by the unamended specification would, if valid, have owed its validity as an invention. If I am right in the conclusions stated earlier in this judgment with regard to subject-matter, there is no inventive step, no element of discovery, merely in making new substances by known methods out of known materials.

What is indispensably necessary in order to elevate a process of this description from a mere laboratory exercise to the status of a patentable invention is the presence of some previously undiscovered useful quality, for example some remarkable value as drugs, then although the methods are known and the materials are known yet the application of those methods to those materials to produce those new substances may amount to a true invention, because of the discovery that those particular known materials when combined by those methods not merely produce those new substances but produce, in the shape of these new substances, drugs of remarkable value.

I think it necessarily follows that the identity of the materials chosen (by luck or good management) by the supposed inventor for the production of his new substances is of the essence of his invention. He must, so to speak, be in a position to repel critics by saying: "You tell me that there is nothing in combining known substances A and B to produce my new substance C, because any chemist could have worked the combination from the books and would have known as a matter of chemical definition that C would be the result. But my great secret, my discovery, is that these particular known substances A and B when combined do not merely produce a new substance answering the chemical description C (which according to accepted chemical theory was a foregone conclusion) but produce in the shape of C a remarkably valuable drug."

A striking tribute was paid to the judgment of Jenkins J. both in the Court of Appeal and in the House of Lords. In the Court of Appeal Lord Greene M.R. stated that he agreed with it and might well have contented himself with adopting it as his own¹. And in the House of Lords, Lord Simmonds, who delivered the leading majority judgment, said²:

I have gratefully borrowed from the judgments of Jenkins, J. and the Master of the Rolls, from no word of which do I see any reason to dissent.

And Lord Morton of Henryton, one of the dissenting judges, said at page 40:

I am in agreement with the admirable judgment of Jenkins, J. unanimously upheld by the Court of Appeal, on every point save two.

neither of the two points of exception referred to by him having any bearing on the statements I have cited.

¹ (1949) 66 R.P.C. 11 at 18.

² (1950) 67 R.P.C. 23 at 34.

It was urged on behalf of the Commissioner that the statements of Jenkins J. were *obiter*. I do not agree but even if they were I find his reasons convincing and adopt them as applicable to the present case.

I have already held that although a process consists in the application of a known method to known materials it is nevertheless a new process if the method has not previously been applied to the particular materials and the use of the process results in the production of a new substance, but I agree with Jenkins J. that there is no inventive step involved in merely making a new substance by such a process, even if it is new, if the substance is not useful. The mere novelty of the process is not enough to make it patentable. What is "indispensably necessary" in order to elevate it to the status of a patentable invention is the presence of some previously undiscovered useful quality in the product produced by it. It is, in my opinion, clear that when Jenkins J. made the statement which I have cited from page 295 of the report of the case he was thinking of the invention of a process. His remarks are plainly referable to such an invention. And it is clear that he considered that the presence of a previously undiscovered useful quality in the product produced by the process even although it consisted in the application of known methods to known materials might amount to a true invention because of the discovery that when the particular known materials were combined by the known methods they produced substances that were not only new but also useful.

Thus, Jenkins J. held, in effect, that the discovery of the unobvious and previously unknown utility of the process, namely, that its use would produce a new and useful substance would make the process an invention. There is further support for this view of his holding in the concluding sentence of the cited statement:

But my great secret, my discovery, is that these particular known substances A and B when combined do not merely produce a new substance answering the chemical description C (which according to accepted chemical theory was a foregone conclusion) but produce in the shape of C a remarkably valuable drug.

This remark, plainly referable to a process, shows that the invention that Jenkins J. contemplated lay in the discovery of the utility of combining the known materials for the production of a new and useful substance.

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For reasons similar to those given by Jenkins J. I express the opinion that when a process consists in the application of a known method to known materials but it has not previously been applied to them and the use of the process results in the production of a substance that is not only new but also valuable for its unobvious useful qualities the process by which such substance is produced is patentable.

In my judgment, the process defined in claims 1, 2 and 3 of the patent under discussion is clearly within the ambit of the principle thus stated. It has all the necessary attributes of patentability. I have earlier found that it was new, for the applicants were the first persons to think of applying the known "classical" method of reaction to the particular reactants specified in the product claims and to produce the new disinfectants and preservatives defined in them. It had never previously occurred to any one to do what they did. And there cannot be any doubt that the process was useful. Without it the new substances could not have been produced. The process was essential to their production. And it is clear that the utility of the substances was not obvious and was not known until the applicants discovered it.

It is conceded that the discovery of the unobvious utility of the new disinfectants and preservatives produced by reacting the particular reactants specified in the product claims was inventive and that this coupled with the novelty of the substances and their utility made them patentable. In my opinion, it is just as proper to say that the applicants made an inventive step when they applied the known "classical" method of reaction to the particular reactants specified in the product claims and discovered that by so doing they could produce the new and useful disinfectants and preservatives.

Thus, the statement of the Commissioner that the only inventive step taken by the applicants was the discovery of certain properties in certain phenoxyalkyl-ammonium salts does not warrant his refusal to allow their claims for the process by which they were produced for there was also the discovery by the applicants that if they reacted the particular reactants specified in the product claims they could produce the salts referred to with their useful qualities.

Indeed, it would be fair to say that when the applicants discovered the unobvious utility of the new preservatives and disinfectants which they had produced by their new

process they also discovered the unobvious utility of the process by which they had produced them.

The fact that their discovery of the utility of their process may have flowed from their discovery of the utility of the substances produced by it does not deprive their concept of reacting the particular reactants and thus producing the new and useful substances of its inventive character.

There was thus inventiveness not only in the discovery of the unobvious useful qualities of the new substances but also in the discovery of the unobvious utility of the new process by which they were produced with the result that both the substances defined in the product claims and the process defined in the process claims are patentable.

For the reasons given I must find that the Commissioner was in error in refusing to allow the process claims 1, 2 and 3 and that the appeal from his decision is allowed. But pursuant to section 25 of the Act the allowance of the appeal must be without costs.

Judgment accordingly.

N.B. The judgment herein was affirmed by the Supreme Court of Canada [1959] S.C.R. 378.

BETWEEN:

ERNEST SMITH MARTINDALESUPPLIANT;

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HER MAJESTY THE QUEENRESPONDENT.

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The suppliant, a retired civil servant, became in 1909 a temporary employee in the Topographical Surveys Branch of the Department of the Interior on a per diem wage. As from April 17, 1919, his position

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was that of Chief of Survey Party at \$9.00 per day. Under the authority of Order in Council P.C. 2958, dated December 16, 1920, the Civil Service Commission approved a recommendation from the Deputy Minister of the Interior that certain temporary employees of the Department, including the suppliant, be granted permanent status. The recommendation was concurred in by the Treasury Board and approved by Order-in-Council P.C. 208/1426, dated June 30, 1922, pursuant to which the suppliant became a permanent official of the Department of the Interior as from April 1, 1921. The *Civil Service Superannuation Act* came into force on July 19, 1924, at which time the suppliant, although he had been granted the status of permanency, was still on a per diem rate of pay. Subsequently, Order in Council P.C. 52/517, dated April 6, 1925, was enacted pursuant to which certain officials of the Topographical Surveys Branch of the Department of the Interior, including the suppliant, were reclassified on an annual salary basis with effect from April 1, 1924. On the assumption that this Order in Council had the retroactive effect of putting him in the same position as if he had been in receipt of an annual stated salary on April 1, 1924, the suppliant elected to become subject to the *Civil Service Superannuation Act*.

On May 20, 1953, the suppliant was retired and his superannuation was calculated on the basis of the average of the salary received by him during the last ten years of his service on the ground that he did not become a civil servant until after July 19, 1924, and that Part I of the *Civil Service Superannuation Act*, and not Part II or Part IV, applied to him. The suppliant protested and brought a petition of right seeking a declaration that he is entitled to the benefit of Part II of the *Civil Service Superannuation Act* and section 24(2) of the *Public Service Superannuation Act* and that his superannuation annuity or allowance should be calculated on the basis of the average of the salary received by him during the last five years of his service.

Held: That a person who has complied with the requirements of the *Public Service Superannuation Act* has a statutory right to the superannuation annuity or allowance under it and that if it is wrongfully withheld from him a petition of right lies for its recovery.

2. That in order that a person should be held entitled to the said superannuation annuity or allowance it must be shown that every condition prescribed by the statute that created it has been complied with and the onus of proof of such compliance lies on the person who asserts the right.
3. That a per diem rate of pay is not a "yearly salary" or a stated annual salary: *Naylor v. Peacehaven Electric Light and Power Company, Limited* (1930-31) 47 T.L.R. 535 at 537 followed.
4. That at the date of the coming into force of the *Civil Service Superannuation Act*, namely, July 19, 1924, the suppliant was not subject to the provisions of the *Retirement Act* in that, at such date, he was not being paid a "yearly salary" and was not, therefore, a member of the Civil Service for the purposes of the *Civil Service Superannuation and Retirement Act*, within the meaning of section 2(a) of that Act, and that, consequently, he did not come within the ambit of section 15 of the *Civil Service Superannuation Act* and Part II of that Act did not apply to him.
5. That on July 19, 1924, the suppliant was not a civil servant within the meaning of section 2(b) of the *Civil Service Superannuation Act* in

that, at such date, he was not in receipt of "a stated annual salary", as required by the section, and that, consequently, he did not come within the ambit of section 20 of the Act and Part IV of the Act did not apply to him.

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6. That it is a fundamental rule that, except in respect of procedure, a statute shall not be construed as having a retrospective operation unless the intention that it shall have such operation clearly appears in it, either in express terms or by necessary implication.
7. That an Order in Council, being delegated legislation, cannot have an effect beyond that which is authorized by the Act which empowers its enactment.
8. That the Governor in Council does not have authority to pass an Order in Council unless the Act of Parliament under the authority of which it is passed, either expressly or by necessary implication, empowers its passing.
9. That Order in Council P.C. 52/517 of April 6, 1925, was passed under the authority of section 9(2) and 45B(1) of the *Civil Service Act*, 1918, and there is no indication in that Act or in any Act empowering the Governor in Council to pass an Order in Council having the retroactive effect expressed in the Order in Council.
10. That the Governor in Council did not have authority to make Order in Council P.C. 52/517 of April 6, 1925, retroactively effective to put the suppliant in the position of being in receipt of a stated salary as at April 1, 1924, as it purported to do.
11. That Order in Council P.C. 52/517 of April 6, 1925, was not effective to entitle the suppliant to have his superannuation calculated on the basis of the average of the salary received by him during the last five years of his service.
12. That the suppliant is not entitled to any of the relief sought by him.

PETITION OF RIGHT.

The petition was heard by the President of the Court at Ottawa.

J. C. Osborne, Q.C., and *Paul P. Hewitt* for suppliant.

D. H. W. Henry, Q.C., for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (June 27, 1957) delivered the following judgment:

In his petition of right the suppliant, a retired civil servant, prays for a declaration that he is entitled to the benefit of Part II of the *Civil Service Superannuation Act*, R.S.C. 1927, Chapter 24, and section 24(2) of the *Public Service Superannuation Act*, Statutes of Canada, 1952-53, Chapter 47, and that his superannuation annuity or allowance should be calculated on the basis of the average of the

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salary received by him during the last five years of his service and be paid to him on such basis retroactively to May 20, 1953, the date of his retirement.

When the suppliant retired his superannuation was calculated on the basis of the average of the salary received by him during the last ten years of his service but he contended that he was entitled to the benefit of having it calculated on the five year average salary basis and this petition was brought for a declaration of his right.

This is the first action under the *Public Service Superannuation Act*. It raises an issue of great importance, not only to the suppliant and other persons whose positions are similar to his, but also to the public at large.

The issue depends on whether the suppliant was a civil servant to whom Part II of the *Civil Service Superannuation Act* applied. And this, in turn, depends on the validity of the purported retrospective operation of Order in Council P.C. 52/517 of April 6, 1925.

I shall deal first with the relevant provisions of the *Civil Service Superannuation Act*. Section 2(b) of that Act defined "civil servant" as follows:

2. In this Act, unless the context otherwise requires,
 - (b) "civil servant" means and includes any permanent officer, clerk or employee in the Civil Service as herein defined,
 - (i) who is in receipt of a stated annual salary of at least six hundred dollars, and
 - (ii) who is required, during the hours or period of his active employment, to devote his constant attention to the performance of the duties of his position and the conditions of whose employment for the period or periods of the year over which such employment extends preclude his engaging in any other substantial gainful service or occupation;

and sections 15 and 16, under the heading "Part II", provided:

15. This Part applies to civil servants who on the nineteenth day of July, one thousand nine hundred and twenty-four, are subject to the provisions of the Retirement Act.

16. Any such civil servant who, within three years after the nineteenth day of July, one thousand nine hundred and twenty-four, elects to become a contributor under this Act, shall have transferred to the Fund created under this Act the amount standing to his credit in the Retirement Fund, which amount shall thereupon be deemed to be a contribution under this Act, and such contributor shall, as from the date of such election, be deemed to have waived his right to any payment or benefit under the provisions of the Retirement Act and shall be subject to the provisions of,

and entitled to all the benefits and privileges under, Part I of this Act to the same extent as if he had been appointed after the nineteenth day of July, one thousand nine hundred and twenty-four, and had been a contributor for the period in respect of which he contributed to the Retirement Fund: Provided, however, that in computing the superannuation allowance of any such contributor, the average salary shall be based upon the salary received by the contributor during the last five years of his service.

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If the suppliant was a civil servant to whom Part II of the *Civil Service Superannuation Act* applied he is entitled to the computation of his Superannuation under the *Public Service Superannuation Act* on the basis of the average of the salary received by him during the last five years of his service pursuant to section 24(2) of that Act. Section 9(1) of the said Act provides:

9. (1) The amount of any annuity to which a contributor may become entitled under this Act is an amount equal to

(a) the number of years of pensionable service to the credit of the contributor, not exceeding thirty-five, divided by fifty, multiplied by

(b) the average annual salary received by the contributor during any ten year period of pensionable service selected by or on behalf of the contributor, or during any period so selected consisting of consecutive periods of pensionable service totalling ten years, or

and section 24 (2) is in these terms:

24. (2) For the purposes of paragraph (b) of subsection (1) of section 9, the average annual salary received by a contributor who, on or before the 19th day of July, 1927, elected under Part II or IV of the *Superannuation Act* to become a contributor under Part I of that Act and who has not, at any time since so electing, received any amount by way of a return of contributions or other lump sum payment under this Act or under Part I of the *Superannuation Act*, is the average annual salary received by him during either period specified in paragraph (b) of subsection (1) of section 9 or the average annual salary received by him during the last five years of his employment in the Public Service, whichever is the greater.

It is clear that a person who has complied with the requirements of the *Public Service Superannuation Act* has a statutory right to the superannuation annuity or allowance under it and that if it is wrongfully withheld from him a petition of right lies for its recovery. But it must be kept in mind that this statutory right resembles every other statutory right in an important respect, namely, that in order that a person should be held entitled to it it must be shown that every condition prescribed by the statute that created it has been complied with. The onus of proof of such compliance lies on the person who asserts the right.

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Consequently, to establish his right under section 24(2) of the *Public Service Superannuation Act* the suppliant must show, *inter alia*, that on or before July 19, 1927, he had elected under Part II of the *Civil Service Superannuation Act*. To do so he must show that he was a civil servant to whom Part II of that Act applied and this means that on July 19, 1924, he was a civil servant within the meaning of the definition in section 2(b) of the Act and subject to the *Civil Service Superannuation and Retirement Act* R.S.C. 1906, Chapter 17. In order to show that he was a civil servant within the meaning of the statutory definition he must show, not only that he was a permanent officer, clerk or employee in the Civil Service, but also that he was in receipt of "a stated annual salary" of at least six hundred dollars.

I now come to the facts and Orders in Council on which the suppliant relies. The facts are not in dispute. A statement of agreed facts was filed as an exhibit and this was supplemented by evidence. The suppliant is a retired civil servant. Commencing on or about 1909 he was a temporary employee in the Topographical Surveys Branch of the Department of the Interior and received a per diem wage for his employment. As from April 17, 1919, his position was that of Chief of Survey Party and he was paid \$9.00 per day.

By Order in Council P.C. 1958, dated December 16, 1920, the Civil Service Commission was instructed and directed to submit to His Excellency in Council lists showing the temporary employees who were then regarded by the Commission and by the Department concerned as of a permanent nature, whose services were certified as satisfactory by the Department and approved as such by the Commission and who conformed to the regulations set out in the Order in Council, and it was provided that such of the temporary employees as might be granted permanent status by the Governor in Council should have their rates of pay determined as provided in the Order in Council.

Under the authority of this Order in Council the Civil Service Commission approved a recommendation from the Deputy Minister of the Interior that certain temporary employees of the Department, including the suppliant, be granted permanent status under the terms of the said Order

in Council and that their rates of pay be determined in accordance with the regulations under it. This recommendation was concurred in by the Treasury Board and approved by His Excellency the Governor General in Council on June 30, 1922, as Order in Council P.C. 208/1426, the permanency to be dated from April 1, 1921, and the rates of pay to be adjusted accordingly.

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The suppliant thus became a permanent official of the Department of the Interior. On August 23, 1922, the Department notified him to this effect and informed him that he must now contribute 5 per cent of his salary to the Retirement Fund and make a back payment of \$171.23 to cover arrears for the period from April 1, 1921 to June 30, 1922. The suppliant made the contributions to the Retirement Fund that he was thus directed to make. It was apparently assumed that he was subject to the *Civil Service Superannuation and Retirement Act* under which the compulsory payments, which are deducted from his salary, were made.

The next event in chronological order was the enactment of the *Civil Service Superannuation Act*, Statutes of Canada, 1924, Chapter 69, which came into force on July 19, 1924.

At that date the suppliant, although he had been granted the status of permanency, was still on a per diem rate of pay. He was, therefore, at that date, not in receipt of a stated annual salary and, consequently, he was not a civil servant within the meaning of the definition in section 2(b) of the Act. It follows that he was not then a person to whom Part II of the Act applied. If there were no more to be said this would be the end of his case.

But it was contended that by virtue of Order in Council P.C. 52/517 of April 6, 1925, to which I shall refer later, the suppliant was put in the position of being a civil servant within the meaning of the statutory definition retroactively to April 1, 1924, and that, consequently, Part II of the Act did apply to him, as stated in section 15, and that since he had made an election pursuant to section 16 he was entitled to have his superannuation calculated on the basis of the average of his salary during the last five years of his service.

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Thus the basic issue in the case is whether the said Order in Council had the effect for which the suppliant contended. If it did he is entitled to the relief sought by him.

It is desirable to set out the circumstances under which the said Order in Council was passed. At and following the date of Order in Council P.C. 208/1426, of June 30, 1922, the Civil Service Commission and the Department of the Interior were engaged in a re-organization of the Topographical Surveys Branch of that Department and in a re-classification of positions therein and at the date of the coming into force of the *Civil Service Superannuation Act* the said re-organization and re-classification was still going on. It was intended that the officials of the Branch should be re-classified so as to give them a minimum and maximum yearly salary. On November 21, 1924, the Deputy Minister of the Department in a letter to the Secretary of the Civil Service Commission urged that the re-classification should be hastened and be dated from April 1, 1924, so that the officials covered by it might make application under the *Civil Service Superannuation Act*, which had recently been enacted. And it appears from a letter, dated January 28, 1925, from the Topographical Surveyors' Society to the Chairman of the Civil Service Commission that the re-organization was almost completed and that it was intended by the Commission that the Order in Council putting the re-organization into effect would be retroactive to April 1, 1924. But when the Commission's report was prepared it was stated in it that the re-organization was to become effective on April 1, 1925. This provoked a strong protest from the Director of the Topographical Survey of Canada, as appears from a memorandum to the Deputy Minister of the Interior, dated March 27, 1925. On the same date the Deputy Minister sent the memorandum to the Secretary of the Civil Service Commission and returned the re-organization recommendation to him with the statement that his Minister felt that he would not be justified in joining in the recommendation as made and expressed the hope that the Commission would see its way clear to implement the undertaking given by the Chairman of the Commission that the recommendation should be retroactive to April 1, 1924.

As a result, Order in Council P.C. 52/517 of April 6, 1925, came into existence. The report of the Civil Service Commission on the organization of the Topographical Surveys Branch of the Department, as modified by the Department, was concurred in. This included a re-classification of certain officials, of whom the suppliant was one, on an annual salary basis and it was provided that the effective date of the recommendations should be April 1, 1924.

It is contended on behalf of the suppliant that this Order in Council had the retroactive effect of putting him in the same position as if he had been in receipt of an annual stated salary on April 1, 1924, and that, consequently, Part II of the *Civil Service Superannuation Act* applied to him.

On this assumption the suppliant, on April 16, 1925, signed an election form in which he made application to become subject to the *Civil Service Superannuation Act*. On May 16, 1925, the Department of Finance acknowledged receipt of his election. Subsequently, the contributions to his credit in the Retirement Fund established pursuant to the *Civil Service Superannuation and Retirement Act* were transferred to the Fund established pursuant to the *Civil Service Superannuation Act*.

On May 20, 1953, the suppliant was retired and his superannuation was calculated on the basis of the average of the salary received by him during the last ten years of his service on the ground that he did not become a civil servant until after July 19, 1924, and that Part I of the *Civil Service Superannuation Act*, and not Part II or Part IV, applied to him. The suppliant protested and brought this petition of right for a declaration of his right.

After consideration of the careful arguments submitted by counsel I have come to the conclusion, without doubt, that the issue in this case must be resolved against the suppliant. My reason for this conclusion, put briefly, is that at the date of the coming into force of the *Civil Service Superannuation Act*, namely, July 19, 1924, Part II of the said Act did not apply to him for the reason that, at that date, he was not a civil servant within the meaning of the statutory definition in section 2(b) of the Act in that, at such date, he was not in receipt of "a stated annual salary" of at least six hundred dollars, and that Order in

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 Council P.C. 52/517 of April 6, 1925, was not effective in law to remedy his inability to meet this essential requirement.

Thorson P. I now set out the steps that have led me to this conclusion. In the first place, it is clear, according to section 15 of the Act, that Part II of the Act applied to civil servants who, on July 19, 1924, were subject to the provisions of the *Retirement Act*. On that date, the suppliant was not so subject. When he was granted permanent status by Order-in-Council P.C. 208/1426, of June 30, 1922, he was not being paid a yearly salary. He was being paid on a per diem basis. He was, therefore, not a member of the Civil Service, for the purposes of the *Civil Service Superannuation and Retirement Act*, within the meaning of section 2(a) of that Act which provided, in part:

2. The Civil Service, for the purposes of this Act, includes and consists of,—

- (a) all officers, clerks and employees in or under the several departments of the Executive Government who are paid a *yearly salary*, and to whom the Civil Service Act applies;

Consequently, one of the conditions required before Part II could apply to the suppliant, namely, that he should be subject to the provisions of the *Civil Service Superannuation and Retirement Act* was not met. The fact that he was informed on behalf of the Department of the Interior that he had to contribute to the Retirement Fund did not make him subject to the Act if in fact and in law, as was the case, he was not so subject. The assumption that he was subject to the Act was erroneous.

But this non-compliance with one of the requirements of section 15 would not, of itself, disentitle him to the computation of his superannuation allowance on the five year average salary basis, for he became entitled to a yearly salary on April 1, 1925, and would, therefore, if otherwise qualified, come under Part IV of the Act, pursuant to section 20, which provided:

20. This Part applies to civil servants who on the nineteenth day of July, one thousand nine hundred and twenty-four, are not subject to the provisions of the Retirement Act or the Superannuation Act.

in which case he would still be entitled to the five year average salary basis for the calculation of his superannuation.

But the serious bar to the suppliant's success is that on July 19, 1924, he was not a civil servant within the meaning of section 2(b) of the Act, in that, while he was a permanent officer, clerk, or employee in the Civil Service, he was not in receipt of a "stated annual salary". Of that fact there can be no dispute. The records show conclusively that up to April 30, 1925, he was paid at the rate of \$9.00 per day.

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If any authority is required for the statement that a per diem rate of pay is not a stated annual salary it may be found in the judgment of Rowlatt J. in *Naylor v. Peacehaven Electric Light and Power Company, Limited*¹ where he said:

I can only say that where a person is paid £5 or £6 a week it is not possible to say that he is engaged at an annual salary.

and later,

What is the salary? It is £5 or £6 a week, and I can only think that those who appeared before Sir Harold Morris forgot to point out to him that after all an annual salary is not 52 times a weekly salary. This is a weekly salary. They are two entirely different and distinct things. If anything turns on the words "annual salary", as it does, you cannot say that a weekly salary paid 52 times a year with one day over or two days over is an annual salary. It is not.

A fortiori a per diem rate of pay is not a stated annual salary.

Consequently, the suppliant's case depends on whether Order in Council P.C. 52/517 of April 6, 1925, had the retroactive effect of making him in receipt of a stated annual salary on July 19, 1924, when in fact he was then being paid on a per diem basis. The Order-in-Council is expressed to be retroactive to April 1, 1924, and it was intended that it should have the effect for which the suppliant contends. And it is clear that if it did have such effect the suppliant would be entitled to the relief sought in his petition.

The question whether the Governor in Council could validly give the Order in Council the retroactive effect claimed for it raises an issue that transcends the personal interests of the suppliant and the other civil servants whose positions are similar to his and in resolving it considerations of personal sentiment must not be allowed to intrude on the important legal principle involved.

¹ (1930-31) 47 T.L.R. 535 at 537.

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Where a substantive right is involved the law leans against giving a statute a retrospective operation. It is a fundamental rule that, except in respect of procedure, a statute shall not be construed as having a retrospective operation unless the intention that it shall have such operation clearly appears in it, either in express terms or by necessary implication: *Vide* Maxwell on Interpretation of Statutes, 10th Edition, page 213, and the cases there cited; Craies on Statute Law, 5th Edition, page 360, and the cases there cited. It is important to keep this fundamental rule in mind in considering the validity of Order in Council P.C. 52/517 of April 6, 1925, on which the suppliant relies. But it was strongly urged before me that, in view of the clearly expressed intention that it should have retrospective operation, it should be construed as having such operation on the ground that its validity should be assumed unless it is shown that its retrospective operation was prohibited by the Act under the authority of which it was passed.

Since the close of the argument I have given careful consideration to this submission and am clearly of the opinion that it would be highly dangerous and contrary to principle to accept it. Why should the Court assume that the Governor in Council, that is to say, the Government, should have power to enact delegated legislation, for that is what Order in Council P.C. 52/517 of April 6, 1925, was, enlarging the scope of the existing law, for that is what the Order in Council purported to do? It sought to make Part II of the *Civil Service Superannuation Act* apply to persons to whom it did not in fact apply.

In my opinion, the law does not sanction the assumption referred to. The delegated legislation enacted by the Governor-in-Council, that is to say, the Government, cannot have an effect beyond that which is authorized by the empowering Act. Thus it would be sound to state as a fundamental principle that the Governor-in-Council does not have authority to pass an Order in Council having retrospective operation unless the Act of Parliament under the authority of which it is passed, either expressly or by necessary implication, empowers its passing.

Order in Council P.C. 52/517 of April 6, 1925, was passed under the authority of section 9 (2) and 45B (1) of the *Civil Service Act*, 1918, Statutes of Canada, 1918, Chapter

12, as amended. I have not been able to find any indication in that Act or, indeed, in any Act empowering the Governor in Council to pass an Order in Council having retroactive effect such as that expressed in the Order in Council under review.

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I am, therefore, of the opinion that the Governor in Council did not have authority to make Order in Council P.C. 52/517 of April 6, 1925, retroactively effective to put the suppliant in the position of being in receipt of a stated annual salary as at April 1, 1924, as it purported to do. The result is that Part II of the *Civil Service Superannuation Act* did not apply to him and he is not entitled to have his superannuation calculated on the basis of the average of the salary received by him during the last five years of his service. He must content himself with the ten year average salary basis.

I should perhaps make it clear, although the matter is not before me, that this decision is not to be taken as necessarily meaning that increases of salary may not be made retroactive.

The fact that the responsible administrative officers of the various government departments treated the suppliant first as being subject to the *Civil Service Superannuation and Retirement Act* and later as being a civil servant to whom Part II of the *Civil Service Superannuation Act* applied cannot help him. The assumption of the various departmental officers charged with the administration of superannuation that Order in Council P.C. 52/517 of April 6, 1925, had the effect claimed for it did not give it such effect. The suppliant's right or lack of right is a matter of law.

I should add briefly that I am not able to accept the submissions of counsel for the suppliant that the combined effect of Orders in Council P.C. 2958 of December 16, 1920, and P.C. 208/1426 of June 30, 1922, was to make the suppliant a permanent civil servant on a yearly salary as of April 1, 1921, or that section 24 (2) of the *Public Service Superannuation Act* gave the suppliant any greater right than he previously had.

Nor need I consider the submission of counsel for the respondent that since the Governor in Council's authority was mererly to approve what was done by the Civil Service

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Commission and the Commission did not fix the retroactive date of Order in Council P.C. 52/517, it was outside the authority of the Governor in Council to approve it.

For the reasons given the judgment of the Court must be that the suppliant is not entitled to any of the relief sought by him in his petition of right and that the respondent is entitled to costs.

Judgment accordingly.

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BETWEEN:

CIRCLE FILM ENTERPRISES INCORPORATED } PLAINTIFF;

AND

CANADIAN BROADCASTING CORPORATION } DEFENDANT.

Copyright—Copyright Act, R.S.C. 1927, c. 32, ss. 20(3), 36(2)—The Copyright Amendment Act, 1931, S. of C. 1931, c. 8, s. 7—Certificate of registration of copyright prima facie evidence of ownership by person registering certificate—Where plaintiff's title to copyright put in issue author of work presumed to be owner of copyright, unless contrary proved—Difference between prima facie evidence and proof.

The plaintiff brought an action against the defendant for infringement of copyright. In its statement of claim it alleged that it was the owner of the copyright in a work called "Golgotha", of which the author was one Chanoine Joseph Reymond, a French citizen, resident in Paris, and that the defendant had infringed its rights by broadcasting it by means of television from its station in Toronto. In its statement of defence the defendant denied that the plaintiff was entitled to any copyright in the work. Counsel for the plaintiff relied on a certificate of registration of copyright issued by the Commissioner of Patents who certified that the copyright in the published literary work entitled "Golgotha" by Chanoine Joseph Reymond, of Paris, France, was registered in the Register of Copyrights kept at the Copyright Office on February 5, 1952, in the name of the plaintiff and that under section 36(2) of the *Copyright Act* the certificate of registration was, in the absence of evidence to the contrary, sufficient proof of the plaintiff's entitlement to the copyright. Counsel for the defendant submitted that section 20(3) of the *Copyright Act* as amended in 1931 applied in the circumstances of the case and that under it the onus of proof of the plaintiff's title to the copyright, since it was not the author of the work, lay on it and was not discharged by the mere filing of the certificate of registration. As an alternative to his submission counsel for the plaintiff sought to prove the plaintiff's title to the copyright by producing certain documents and proving their execution through the evidence of the president of the plaintiff.

Held: That there is a difference between *prima facie* evidence and proof.

2. That in an action for infringement of copyright, where the plaintiff is not the author of the work in which he claims the copyright and the defendant puts in issue the plaintiff's title to it, the onus of proof that the author of the work is not the owner of the copyright rests on the plaintiff and cannot be discharged merely by filing a certificate of registration of copyright in his name.
3. That the execution of the documents produced on behalf of the plaintiff was not lawfully proved and the plaintiff has not proved its title to the copyright.
4. That the plaintiff's action must be dismissed.

ACTION for infringement of copyright.

The trial was held before the President of the Court at Ottawa.

Redmond Quain, Q.C., and *Hector Soublière* for plaintiff.

E. G. Gowling, Q.C., and *W. R. Jackett, Q.C.*, for defendant.

The facts and questions of law raised are set out in the reasons for judgment.

THE PRESIDENT now (August 9, 1957) delivered the following judgment:

This is an action for damages for infringement of copyright. The plaintiff alleges, *inter alia*, that it is the owner of the copyright in a work called "Golgotha", the author of which was Chanoine Joseph Reymond, a French citizen, resident in Paris, and that the defendant infringed its rights in April of 1953 by broadcasting it by means of television from its station in Toronto. The plaintiff claims damages in the sum of \$20,000 on the ground that the television showing reduced the value of the work for cinema performances and television and other purposes. It also claims punitive damages of \$1,000 and an injunction.

In its statement of defence the defendant, *inter alia*, denies that the plaintiff is entitled to any copyright in the said work and thus puts in issue the plaintiff's title to the copyright in it. If this issue is resolved against the plaintiff that is the end of its case.

Counsel for the plaintiff relied on a certificate of registration of copyright, filed as Exhibit 9, and section 36(2) of the *Copyright Act*, R.S.C. 1927, Chapter 32. The certificate was issued by the Commissioner of Patents who certified that the copyright in the published literary work entitled

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“Golgotha” by Chanoine Joseph Reymond, of Paris, France, was registered under Serial No. 95504, in Register of Copyrights No. 25, kept at the Copyright Office, on the 5th day of February, 1952, in the name of Circle Film Enterprises Inc., of Hollywood, California, U.S.A., and that the first publication of the work was made May 4, 1934, April 12, 1935, and March 25, 1937, in Paris, France. Section 36(2) of the *Copyright Act* provided:

36. (2) A certificate of registration of copyright in a work shall be *prima facie* evidence that copyright subsists in the work and that the person registered is the owner of such copyright.

and it was submitted on behalf of the plaintiff that the registration of the certificate was, in the absence of evidence to the contrary, sufficient proof of its title to the copyright in question. Indeed, counsel for the plaintiff based its case on this submission.

Counsel for the defendant, on the other hand, relied on section 20(3) of the *Copyright Act*, as amended by section 7 of *The Copyright Amendment Act*, 1931, Statutes of Canada, 1931, Chapter 8, which, so far as relevant, provided:

20. (3) In any action for infringement of copyright in any work, in which the defendant puts in issue either the existence of the copyright, or the title of the plaintiff thereto, then, in any such case:

- (a) The work shall, unless the contrary is proved, be presumed to be a work in which copyright subsists: and
- (b) The author of the work shall, unless the contrary is proved, be presumed to be the owner of the copyright;

and it was submitted on behalf of the defendant that this provision specifically applies in the circumstances of this case and that under it the onus of proof of the plaintiff's title to the copyright in question, since it was admittedly not the author of the work in which it subsisted, lay on the plaintiff and was not discharged by the mere filing of the certificate of registration on which it relied.

Thus the basic issue in the case is a narrow one, namely, whether the mere filing of a certificate of registration by a plaintiff who is not the author of the work in which he claims copyright is sufficient proof, in an action for infringement of copyright where the plaintiff's title to the copyright is put in issue, to rebut the statutory presumption raised by section 20(3) that the author of the work is the owner of the copyright in it.

I have no hesitation in determining this issue against the plaintiff. There are several reasons for doing so.

The issue is of considerable importance but it is comparatively novel and there is little judicial authority bearing on it. The most direct judicial pronouncement is that of Ferguson J. in *Reliance Shoe Co. Ltd. v. Campbell Soup Co. Ltd. and Toronto Broadcasting Co. Ltd.*¹ In that case the plaintiff sought an injunction against the defendants restraining them from broadcasting a radio programme under a name in which it claimed a copyright by assignment. It registered its alleged copyright and relied upon the registration as *prima facie* evidence that copyright subsisted and that it was the owner of it. Ferguson J. rejected this submission. At page 84, he said:

I do not think the plaintiff's position is sound because although s. 36 of the *Copyright Act*, R.S.C. 1927, c. 32, makes the certificate of registration of copyright *prima facie* evidence that copyright subsists in the work, and that the person registered is the owner of such copyright, s. 20 makes it clear that in any action for infringement of copyright, if the existence of the copyright is put in issue the *prima facie* presumption raised by s. 36 no longer holds, and the onus is on the plaintiff to establish the existence of the copyright.

I am in substantial agreement with this opinion except that I do not accept the statement that section 36(2) raises a *prima facie* presumption in favor of the person referred to in the certificate of registration. In my judgment, the section does not go that far.

It was unsound to say, as counsel for the plaintiff did, that sections 20(3) and 36(2) of the *Copyright Act* are in conflict with one another. They are not. The Act must be read as a whole and full and fair effect given to each of the sections. The adoption of counsel for the plaintiff's submission would do violence to this fundamental principle of construction for it would, in effect, render section 20(3) meaningless. If it were right all that a person claiming copyright, in a work of which he is not the author, would have to do before bringing an action for infringement of copyright would be to apply for a certificate of registration of copyright and file it. When it is seen how easy it is to obtain such a certificate the unreasonableness of the submission becomes apparent. All that an applicant for registration has to do is to make an application in accordance with Form H. of *The Copyright Rules*, made and established by Order in Council P.C. 3932, dated September 2, 1948. In this form

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¹ (1951) 13 C.P.C. 82.

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the applicant gives his name and address and declares that he is the owner of copyright in the original work, giving its title, the name and address of the author and the date and place of its first publication. The applicant's signature need not be witnessed and he is not required to verify his statements by affidavit or statutory declaration. He need not give any particulars of how he derived his title from the author. On the filing of the application and payment of the required fee the Commissioner of Patents issues the certificate applied for. The Copyright Office does not make any enquiry or search and does not take any responsibility for the truth of the statements in the application. Rule 29 makes the applicant responsible for them. Rule 32 requires that the application shall be signed by the applicant or a duly authorized agent. In the present case it was signed by the plaintiff's solicitor and no evidence was required or given of his authority to sign for the plaintiff. Under the circumstances, it would be unreasonable to assume that the mere filing of a certificate, obtained in this manner, would, in a case within the specific terms of section 20(3), be sufficient proof to establish the contrary of the statutory presumption raised by that section. An interpretation leading to such a result, which in effect would nullify the specific provisions of section 20(3), is so unreasonable that, in the absence of terms clearly compelling its adoption, it ought not be attributed to Parliament.

Moreover, while section 36(2) is general in its terms section 20(3) provides for a specific situation, namely, an action for infringement of copyright in a work in which the defendant puts in issue either the existence of the copyright or the title of the plaintiff to it. Where only the title of the plaintiff to the copyright is put in issue, as in the present case, the section establishes that the author of the work shall be presumed to be the owner of the copyright, unless the contrary is *proved*. Thus in a case where the plaintiff is the author of the work there is a presumption in his favor that he is the owner of the copyright in it. This is in accord with the principle that authorship of a work is the basis of copyright in it. In such a case, if the defendant puts the title of the plaintiff in issue the onus of proof that the plaintiff has parted with the copyright lies on the defendant. But under section 20(3), as amended in 1931, where the plaintiff is not the author of the work but claims copyright by

assignment or otherwise from the author there is no presumption in his favor. On the contrary, the presumption is that the author is the owner and this continues unless the contrary is *proved*. In such case, the onus of contrary proof is on the plaintiff. It would be anomalous if this onus of proof could be discharged by the mere filing of a certificate obtained in the manner described.

In this connection it is significant that, while section 36(2) speaks of the certificate of registration as *prima facie* evidence, section 20(3) establishes the presumptions specified by it unless the contrary is *proved*, and it is well established that there is a difference between *prima facie* evidence and proof: *vide*, for example, *Ontario Equitable Life and Accident Co. v. Baker*¹.

Moreover, section 36(2), making a certificate of registration, obtained by an application for it without verification of the allegations of fact in it, *prima facie* evidence that the declaration of ownership of copyright made by the applicant himself is true is a provision of an exceptional nature not contained, for example, in the English Act or required by the Berne or Rome Conventions. Under the circumstances, its application should not be extended beyond its express terms. There is no need or justification for giving it the large interpretation submitted by counsel for the plaintiff.

Accordingly, I find that in a case to which section 20(3) applies, that is to say, in an action for infringement of copyright, where the plaintiff is not the author of the work in which he claims the copyright, and the defendant puts in issue the plaintiff's title to it, the onus of proof of the contrary of the presumption that the author of the work is the owner of the copyright in it rests on the plaintiff. If he is to succeed in his action he must establish according to the rules of evidence the transaction or transactions by which he derived his title to the copyright from the author, its presumed owner, and he cannot discharge the onus which section 20(3) lays on him merely by filing a certificate of registration of copyright in his name. It is intended by the section that a defendant who has put the plaintiff's title in issue should have an opportunity of testing the proof of title put forward on the plaintiff's behalf. The issue raised by it must be determined as section 20(3) provides and

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¹ [1926] S.C.R. 297.

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cannot be determined by resort to section 36(2). The plaintiff may file the certificate as *prima facie* evidence but it is not sufficient to constitute the contrary proof required by section 20(3) in a case to which it specifically applies.

The basic issue in the case having been thus determined against the plaintiff it was incumbent on it to prove its title to the copyright in question. Counsel for the plaintiff sought to do so by producing certain documents in the course of his examination of Mr. S. Waagenaar, the president of the plaintiff, and proving their execution through him. In doing so he made it clear that this course was an alternative one and taken only in the event that his contention of reliance on section 36(2) of the *Copyright Act* should not be accepted by the Court. I shall set out the attempted chain of title and then deal with the question whether there was sufficiency of proof. The alleged chain started from Chanoine Joseph Reymond, a resident of Paris, who was said to be the author of the scenario of the film "Golgotha". The documents on which counsel relied and which he filed as exhibits, subject to objection by counsel for the defendant, are enumerated as follows, namely, an assignment from Chanoine Joseph Reymond to La Societe Ichthys Films, dated May 4, 1934, of all rights of film adaptation of the scenario "Golgotha" with dialogues in any language; an assignment, appearing to be in the nature of a pledge, from La Societe Ichthys Films to La Societe Films Union, dated November 12, 1934; a transfer from Jean Lepicard, said to be the trustee in bankruptcy of La Societe Films Union, to Leon Izembart, dated March 14, 1938; a transfer from Leon Izembart to A.C.I. Films, dated August 10, 1939, of all the films and film rights said to have formerly belonged to La Societe Films Union and to have been received from the trustee in bankruptcy; a transfer from Chanoine Joseph Reymond to Leon Chalus, dated November 9, 1951, of the right to adapt his work "Golgotha" to television; an assignment from Leon Chalus to A.C.I. Films, dated November 12, 1951, of the rights said to have been received from Chanoine Reymond; an assignment from A.C.I. Films to S. Waagenaar, dated April 6, 1948, of all its rights in respect of "Golgotha" in the United States and Canada and all its rights in respect of its contract with one George McL. Baynes; and an assignment from S. Waagenaar to the plaintiff, dated June 26, 1950, of all his

rights in respect of "Golgotha". These documents were filed in the Copyright Office after the action had started and certificates of such recording were filed as exhibits.

Mr. Waagenaar gave evidence in respect of some of the documents to the effect that he recognized some of the signatures in them, for example, those of Chanoine Joseph Reymond, Leon Izembart and Leon Chalus. Counsel for the defendant objected to the filing of the certificates of the recording of the assignments subsequently to the commencement of the action but it is not necessary to deal with his objection in view of the fact that the filing of the certificates would not have added any strength to the plaintiff's claim of title even if they had been filed before the commencement of the action. No presumption arises from the recording of an assignment.

But counsel for the defendant's objection that the plaintiff has not proved that it is the owner of the copyright is serious. Indeed, it is unanswerable. The objection was two-fold; firstly, that the execution of the documents was not lawfully proved and, secondly, that even if their execution was proved it was not clear what the rights of the plaintiff were.

It should be kept in mind that in this case the defendant has put in issue the plaintiff's title to the copyright said to have been infringed and that the parties are at arms length. The defendant is, therefore, entitled to have the issue which it has deliberately raised determined strictly according to law. Moreover, the plaintiff has made a claim for a large amount of damages and it cannot complain that its claim is resisted. A chain is no stronger than its weakest link so that if the plaintiff fails to establish any one link in it the chain of title fails altogether.

It was proved that Chanoine Joseph Reymond was alive at the date of the trial. It is an elementary rule that the best evidence procurable must be given of the facts sought to be proved: *vide* 13 Hals., Second Edition, page 528, para. 591(2). Since it is established that he was alive at the date of the trial his evidence that he signed the transfer from himself to La Societe Ichthys Films, dated November 12, 1934, would have been the best evidence of its execution and such evidence was procurable for it could have been obtained on commission. The fact that a commission would have been expensive is no answer to the defendant's objec-

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tion for if the plaintiff had succeeded its costs of the commission would have been recoverable. This failure to prove the transfer from Chanoine Reymond to Ichthys Films is sufficient of itself to substantiate the defendant's objection and destroy the plaintiff's claim.

But there is a further flaw in the proof of title. Apart from the fact that the alleged transfer from Jean Lepicard as the trustee in bankruptcy of La Societe Union Films to Leon Izembart, dated March 14, 1938, was not proved by the signature of Jean Lepicard, there is no proof that Union Films was in bankruptcy or that the French law of bankruptcy had been complied with in such a way as to warrant the transfer to Leon Izembart. This difficulty is further complicated by the fact that the rights of Union Films appeared to have come to it by way of pledge from Ichthys Films and there is no proof of how such pledge matured into ownership if such was the case.

And it was also proved that Leon Izembart was alive at the date of the trial from which it follows that the alleged transfer to A.C.I. Films, dated August 10, 1939, was not proved by the best evidence procurable, since the evidence of Leon Izembart could have been obtained on commission. There are other defects of proof of a similar nature.

What I have said is sufficient to show that the plaintiff has not proved its title to the copyright in question. This makes it unnecessary to consider the other objection raised by counsel for the defendant, namely, that even if the execution of the documents had been proved they would not establish the plaintiff's right to the copyright claimed by it.

Since the plaintiff has failed to prove its title to the copyright it is not necessary to consider whether there was any infringement of copyright by the defendant or any of the other issues that might otherwise have had to be dealt with.

And I am of the view that, under the circumstances, I should not deal with the question of damages or attempt to assess them beyond saying that, in my judgment, the amount claimed by the plaintiff was excessive.

It follows from what I have said that the plaintiff's action must be dismissed with costs.

Judgment accordingly.

N.B. The judgment herein was reversed by the Supreme Court of Canada [1959] S.C.R. 602.

BETWEEN:

PAUL ZAMULINSKISUPPLIANT;

AND

HER MAJESTY THE QUEENRESPONDENT.

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Crown—Petition of Right—Civil Service Act, R.S.C. 1927, c. 22, ss. 5, 38—Civil Service Act, R.S.C. 1952, c. 48, ss. 5, 19—Civil Service Regulations approved by Order in Council P.C. 5700, dated November 17, 1949—Section 118 of Civil Service Regulations added by Order in Council P.C. 1954-1, dated January 7, 1954—Exchequer Court Act, R.S.C. 1952, c. 98, s. 18(1)(d)—Appointment of servants of Crown at pleasure—Right of civil servants to have opportunity, prior to dismissal, of presenting side of case to senior officer—Denial of right a cause of action for damages.

The suppliant was a temporary employee of the Post Office Department as a postal clerk in the Post Office at Saskatoon in Saskatchewan. On September 9, 1954, the Postmaster at Saskatoon informed him by letter that on the basis of his being unable "to properly meet the physical requirements" of his classification he was to be released from the service and his services would not be required after September 25 and he was struck off strength on October 7, 1954. The suppliant complained of his dismissal and, after voluminous correspondence by himself and others on his behalf seeking relief, brought a petition of right in which he complained that his dismissal was wrongful and sought (a) a declaration that his employment in the Civil Service of Canada was still continuing and an order for wages, (b) a declaration that he was wrongfully dismissed and unstated damages and (c) damages for not having been given, prior to his dismissal, an opportunity to present his side of the case to a senior officer of the department nominated by the deputy head. The suppliant's case was based on section 118 of the Civil Service Regulations which provided that no employee should be dismissed, suspended or demoted without having been given an opportunity to present his side of the case to a senior officer of the department nominated by the deputy head and on the fact that he had not been given the opportunity to which he was entitled under the section.

Held: That section 19 of the *Civil Service Act* puts the long standing rule that servants of the Crown, in the absence of law to the contrary, hold office during pleasure into statutory effect and that the suppliant has no right to the declaration sought by him that his employment in the Civil Service of Canada is still continuing and that he is entitled to wages.

2. That the suppliant did not have a contract of employment in the Post Office, and that even if he had been a permanent employee, his appointment, under section 19 of the Act, was at pleasure, which meant that he could have been dismissed without cause or notice and even arbitrarily, and that he has no right to damages for wrongful dismissal in the ordinary sense of the term.
3. That section 5 of the *Civil Service Act* gives the Civil Service Commission a wide discretion to make regulations "as it deems necessary

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- or convenient" for carrying out the Act and that section 118 of the Civil Service Regulations was within its powers.
4. That section 118 of the Regulations and section 19 of the Act must be read together and effect given to each.
 5. That section 118 of the Regulations gives a civil servant whom it is proposed to dismiss the right, prior to his dismissal, to have an opportunity to present his side of the case to a senior officer of the department nominated by the deputy head and that when that opportunity has been given to him the right to dismiss him at pleasure provided by section 19 of the Act is in full force and effect.
 6. That the suppliant was not given the right to which he was entitled under section 118 of the Regulations and that this gave him a valid claim against the Crown arising under a regulation made by the Governor in Council within the meaning of section 18(1)(d) of the *Exchequer Court Act*.
 7. That since the suppliant was deprived of a right to which he was legally entitled he has a cause of action and a right to damages. *Ashby v. White* (1703) 2 Ld. Raym. 938, 1955 applied.
 8. That the suppliant is entitled to damages in the sum of \$500.

PETITION OF RIGHT.

The petition was heard by the President of the Court at Saskatoon.

E. N. Hughes for suppliant.

G. H. Yule, Q.C., and *D. H. W. Henry, Q.C.*, for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (October 9, 1957) delivered the following judgment:

In his petition of right the suppliant, who was employed as a postal clerk in the Post Office at Saskatoon in Saskatchewan but was dismissed from his employment, complains that his dismissal was wrongful and seeks in his amended prayer for relief

- (a) A declaration that his employment in the Civil Service of Canada is still continuing and an order for wages.
- (b) A declaration that he was wrongfully dismissed and unstated damages therefor.
- (c) Damages for not having been given, prior to his dismissal, an opportunity to present his side of the case to a senior officer of the department nominated by the deputy head.

Certain facts are not in dispute. On August 6, 1951, the Postmaster at Saskatoon assigned the suppliant to the position of postal clerk at the Post Office at Saskatoon with effect from August 13, 1951, the assignment being made from an eligible list established in Ottawa on which the suppliant's name appeared.

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The Civil Service Commission at Ottawa accordingly issued a certificate for his appointment as a postal clerk, grade 2, at an initial salary of \$2,028 per annum for temporary employment for a period not exceeding September 30, 1951. The temporary employment was authorized under section 38 of the *Civil Service Act*, R.S.C. 1927, chapter 22. Pursuant to this section the period of employment was extended from time to time, the last extension, so far as the suppliant was concerned, being to March 31, 1955.

On September 9, 1954, Mr. L. H. Duggleby, the Postmaster at Saskatoon, wrote to the suppliant as follows:

I am today advised by the Department that on the basis of your being unable to properly meet the physical requirements of your classification you are to be released from the Service.

You are therefore notified that your services will not be required after Saturday, the 25th instant.

and caused this letter to be delivered to the suppliant by hand. Mr. Duggleby wrote this letter pursuant to instructions contained in a letter, dated September 7, 1954, from Mr. R. H. MacNabb, the Director of Operations in the Postal Services Division of the Post Office Department at Ottawa. In this letter Mr. MacNabb agreed with Mr. Duggleby's recommendation against the suppliant's retention in the service, contained in a letter from him, dated July 7, 1954, and instructed him to give the suppliant two weeks' notice of release on the basis of being unable to properly meet the physical requirements of his classification and to furnish the Department with the usual separation from the service form. After Mr. Duggleby had caused his letter of September 9, 1954, to be delivered to the suppliant he notified the Director of Operations on a form headed "Separation from the Service" that the reason for the suppliant's separation was that he was "unable to properly meet the physical requirements of classification" and that the last day worked by him was September 25, 1954. After a grant of compensatory time and annual leave the suppliant was struck off strength on October 7, 1954.

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The suppliant immediately complained of his dismissal and a voluminous correspondence took place between the suppliant on the one hand and several persons on the other, such as the Chairman of the Civil Service Commission, the Deputy Postmaster General and the Department of Labor, all at Ottawa, and Mr. Duggleby at Saskatoon. Other persons also wrote on the suppliant's behalf. For example, there was correspondence between Mr. R. R. Knight, then Member of Parliament for Saskatoon and the Chairman of the Civil Service Commission, and the Postmaster General, between the Army and Navy Veterans and the Chairman of the Civil Service Commission and the Postmaster General, and between the Saskatoon firm of Moxon and Company and the Deputy Postmaster General. Finally, there was lengthy correspondence between the suppliant's solicitors and the Civil Service Commission and the Deputy Postmaster General. The correspondence extended from September 17, 1954, to June 8, 1956, but the Post Office Department did not recede from its position and the suppliant then brought his petition on June 22, 1956.

The suppliant's case is based on section 118 of the Civil Service Regulations which provides as follows:

116. No employee shall be dismissed, suspended or demoted without having been given an opportunity to present his side of the case to a senior officer of the department nominated by the deputy head.

and his complaint is that he was dismissed without having been given an opportunity to present his side of the case to a senior officer of the department nominated by the deputy head.

The Civil Service Regulations, hereinafter called the Regulations, were made by the Civil Service Commission under the authority of section 5 of the *Civil Service Act*, providing as follows:

5. The Commission may make such regulations as it deems necessary or convenient for carrying out the provisions of this Act, including regulations governing the performance by the Commission of its own duties hereunder.

2. All such regulations shall be subject to the approval of the Governor in Council and shall be published in the *Canada Gazette*.

This section was carried forward into section 5 of the *Civil Service Act*, R.S.C. 1952, chapter 48, reading as follows:

5. (1) The Commission may make such regulations as it deems necessary or convenient for carrying out this Act, including regulations governing the performance by the Commission of its own duties hereunder.

(2) All such regulations are subject to the approval of the Governor in Council.

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The Civil Service Regulations were originally approved by Order in Council P.C. 5700, dated November 17, 1949, and amended from time to time. Section 118 was added by Order in Council P.C. 1954-1, dated January 7, 1954, and was in effect at the date of the suppliant's dismissal.

It is also necessary to keep in mind section 19 of the *Civil Service Act* which provides in part as follows:

19. Except where otherwise expressly provided, all appointments to the Civil Service shall be upon competitive examination under and pursuant to this Act, and shall be during pleasure;

On the evidence before me I find as a fact that prior to his dismissal from the service the suppliant was not given an opportunity to present his side of the case to a senior officer of the department nominated by the deputy head but whether this fact gives him any cause of action in view of the fact that his appointment was at pleasure is the basic issue in this case.

Before I proceed to consider it I should refer to the controversial questions of fact raised by the witnesses at the trial, even although, strictly speaking, the question whether there were valid grounds for dismissing the suppliant is not before me for determination in view of the fact that under section 19 of the Act his employment was at pleasure and he could, consequently, be dismissed without any grounds.

When the suppliant received the letter of September 9, 1954, it came as a shock to him and he thought that he was being improperly dismissed. He explained that a war disability from which he had suffered had recurred when he was working at the Post Office and that on January 26, 1954, he had a seizure in his back and was admitted to a D.V.A. hospital. He was there for 10 days and had a cast on for 10 weeks after that, but reported back to duty on May 29, 1954, and remained on full duty until his dismissal. Prior to the receipt of the letter he had not received any indication of the possibility of his release from the service for being unable to meet the physical requirements of his classification. He had had a discussion with Mr. Duggleby late in 1953 who then told him that he was recommending his release because he was not capable of doing city sortation but there had not been any mention of his physical

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classification. After he got the letter he did not discuss it with anyone in the office. Mr. Appleton, his supervisor, knew his condition and had not said anything about it to him and he believed that Mr. Duggleby thought that he was physically capable of doing his work. He was doing the same work as the other postal clerks in city sortation and doing as much and as good work as they. The suppliant complained that prior to his dismissal he was not given any opportunity to present his side of the case to a senior officer of the department nominated by the deputy head and his evidence that he had not been given such opportunity is uncontradicted. He felt that he was capable of doing his work and wanted to convince a senior officer that he was able to carry it.

The failure to give him the opportunity to which he considered himself entitled under section 118 of the Regulations engendered in him a deep feeling of grievance, the intensity of which is manifest in his lengthy correspondence.

Mr. Duggleby gave his account of why the suppliant came to be dismissed. He was first assigned to the sorting of letters for outgoing mail and later transferred to city sortation. In the meantime, he had been tried in the registration, money order and postage stamp branches but, according to his supervisors, his performance there had not been quite average. Mr. Duggleby said that he was unable to learn city sortation, his capacity being much below the average. He spoke to the suppliant repeatedly urging him to learn city sortation but his reply was that he could not. On September 5, 1953, he wrote to Mr. MacNabb, the Director of Operations, reporting the suppliant's inability to master sortation and expressing the opinion that he should be advised that unless his services improved during the coming three months consideration would be given to his release from the service. On September 11, 1953, Mr. R. H. MacNabb wrote to Mr. Duggleby concurring in his recommendation. Mr. Duggleby read his letter of September 5, 1953, to the suppliant, who claimed that the statements in it were all wrong and that he had been performing excellent duties. On September 12, 1953, Mr. Duggleby wrote to the suppliant putting him on probation for three months and informing him that during that period he would be required to improve his knowledge and practice of sortation of mail

for city deliveries and that, failing such improvement, consideration would be given to his release from the service. In December, 1953, Mr. G. Appleton, the suppliant's supervisor, reported that the suppliant was unable to take his sortation test because of his physical condition and had refused to take a miniature one on medical grounds. On December 31, 1953, Mr. Duggleby wrote again to the Director of Operations reporting that the suppliant had made no improvement in his services and stating that it was evident that he was determined not to do manipulative duties and hoped that if he maintained his attitude stubbornly he would eventually be assigned to some type of bookkeeping or desk work. In this letter he recommended that the suppliant be released as being unsuitable for continued employment in the Postal Service. On February 3, 1954, the Director of Operations informed Mr. Duggleby that the suppliant should be given until July 1, 1954, to pass a case examination, otherwise consideration would be given to releasing him from the service and on February 5, 1954, Mr. Duggleby wrote to the suppliant accordingly. At the time, the suppliant was in hospital on sick leave. On May 29, 1954, the suppliant reported back for duty and on June 23, 1954, passed his sortation test. But this did not satisfy Mr. Duggleby. On July 7, 1954, he wrote again to the Director of Operations, enclosing reports from Mr. G. Appleton and Mr. W. R. Van Veen. Mr. Appleton's report was that neither the quantity nor the quality of the suppliant's work had improved, that his normal output was far below the average of the staff, that his attitude to the work and other members of the staff was not satisfactory, that his physical condition appeared to be not fit to perform the duties required of his position, that the effect on the rest of the staff was bad, that they resented having to work overtime, part of which was caused by having to carry the suppliant, and he recommended the suppliant's immediate release. Mr. Van Veen's report was that the suppliant's physical condition was not improving and he was unable to properly perform the duties of his position, that his work was mediocre and that his continued employment was having a detrimental moral effect on the staff and he recommended that unless his physical condition improved he be demoted or serious consideration be given to his release

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from the service. On the basis of these reports and his own comments on the physical condition of the suppliant, Mr. Duggleby said that he could not recommend his retention in the service. On September 7, 1954, the Director of Operations wrote to Mr. Duggleby, as I have already stated, and then Mr. Duggleby wrote the letter of September 9, 1954, to which I have referred, and had it delivered to the suppliant.

Mr. Duggleby's statement was generally supported by Mr. G. Appleton, the suppliant's immediate superior, Mr. R. L. Lane, a postal clerk, and Mr. W. R. Van Veen, Mr. Duggleby's assistant. Mr. Appleton and Mr. Van Veen each confirmed the statements in the reports which they had made to Mr. Duggleby which he forwarded to the Director of Operations with his letter of July 7, 1954.

I do not attempt to make any decision on the controversial questions referred to beyond saying that the evidence before me does not support the reason for the suppliant's dismissal assigned in the letter of September 9, 1954, namely, that he was unable to properly meet the physical requirements of his classification. I have already referred to the suppliant's emphatic statement that he was able to meet them. He denied the truth of statements to the contrary made by Mr. Duggleby and Mr. Appleton. His assertion of his physical fitness is supported by other evidence. For example, the annual efficiency report of August 26, 1953, signed by Mr. Duggleby, contains the statement that the suppliant was physically fit to carry out the necessary duties. And Mr. Duggleby admitted on his cross-examination that he believed that on September 9, 1954, the suppliant was physically fit to carry out the necessary duties if he was willing to do so and he agreed with the suppliant in his statement that he was then physically fit. It was his opinion that on September 9, 1954, the suppliant was able to perform his duties if he was willing to do so. And on his re-examination he repeated his opinion that the suppliant had the necessary ability and physical capacity to perform his duties. A similar opinion was expressed by Mr. Appleton. On his cross-examination he admitted that he thought that the suppliant could have done his full work if he had wanted to. He mentioned that at times he noticed him walking on the street and did not think that there was anything wrong

with him. He noticed a steady improvement in his physical condition between July 7, 1954, and September 9, 1954, and thought, as a layman, that on September 9, 1954, the suppliant was in as good physical condition as he was himself and there was nothing wrong with his own condition. Mr. Lane said that the men who were working with the suppliant figured that he was capable of doing his job but was not doing it. He thought that the suppliant's physical condition was improving. And Mr. Van Veen also admitted on his cross-examination that he thought that the suppliant was capable of doing postal clerk work if he wanted to do it. Indeed, if I had been called upon to decide the matter I would have found on the evidence that on September 9, 1954, the suppliant was able to meet the physical requirements of his classification and that the reason for the suppliant's dismissal assigned in the letter was not a true one. It is, therefore, easy to understand the suppliant's sense of grievance for he felt that if he had been given an opportunity pursuant to section 118 of the Civil Service Regulations to present his side of the case to a senior officer nominated by the deputy head he would have been able to convince him that the reason given for his dismissal was not a true one and the likelihood is that he would have been able to do so. Whether that would have prevented his dismissal in view of the fact that his appointment was at pleasure is another matter. His complaint is that he was not given the opportunity to which he considered himself legally entitled.

Here I may, I think, properly interject the opinion that the Post Office Department at Ottawa has only itself to blame for the unfortunate situation that has arisen. If the Deputy Postmaster General had obeyed the requirements of section 118 of the Regulations and nominated a senior officer of the department and given the suppliant an opportunity to present his side of the case to him before the dismissal went into effect, as he ought to have done, the likelihood is that the suppliant would not have launched any proceedings. It cannot be said that the matter was not brought to the Deputy Postmaster General's attention. On September 17, 1954, the suppliant sent a letter of complaint about his dismissal to the Chairman of the Civil Service Commission and he replied on September 22, 1954, saying that since

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the matter of the release came within the jurisdiction of the employing department he was forwarding the correspondence to the Deputy Postmaster General "so that he may nominate a senior officer of the Department to review your case above your Local Office level and subsequently reply to you direct." But it is apparent that the Deputy Postmaster General did not take any action in the matter. Indeed, I find, notwithstanding his statements appearing in correspondence subsequent to the dismissal, that he did not comply with the requirements of section 118 with the result that the suppliant's dismissal went into effect without the suppliant having been given the opportunity which the section prescribed.

I now proceed to consideration of the issues of law involved in this case. Some of them are simple. The suppliant was a temporary employee of the Post Office Department and had no right to permanent employment. Moreover, even if he had become a permanent employee his appointment was during pleasure. Section 19 of the *Civil Service Act*, to which I have already referred, puts the long standing rule that servants of the Crown, in the absence of law to the contrary, hold office during pleasure into statutory effect. Consequently, it may be said offhand that the suppliant has no right to the declaration sought by him that his employment in the Civil Service of Canada is still continuing and that he is entitled to wages and his claim for such a declaration must be dismissed.

I am likewise of the opinion that the suppliant has no right to any damages for wrongful dismissal. Such a claim connotes in its ordinary sense breach of contract, but in this case the suppliant did not have any contract of employment in the Post Office Department and certainly not a contract that was not terminable at pleasure. The fact that his appointment was at pleasure under section 19 of the Act means that he could have been dismissed without cause or notice and even arbitrarily. The suppliant has, therefore, no right to any damages for wrongful dismissal in the ordinary sense of the term and his claim for damages therefor must also be dismissed.

This leaves only the suppliant's claim for damages for not having been given an opportunity, prior to his dismissal, of presenting his side of the case to a senior officer of the department nominated by the deputy head.

It was submitted that this is a claim under section 118 of the Regulations. Indeed, the suppliant's whole case depends on whether he has an enforceable right under this section. That is the real issue in this case. It is a novel one. It is also an important one and not free from difficulty.

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Mr. Henry for the respondent, with his usual careful preparation, submitted that the regulation was *ultra vires* and, in any event, did not create a legally enforceable right, but was merely an administrative direction and that the sanction for failure to obey the direction was merely a matter for disciplinary action.

The nature of the service of a civil servant and the right of the Crown to dismiss him at pleasure has been carefully considered by the courts in many cases. Mr. Henry referred to the following ones, namely, *Smyth v. Latham*¹; *De Dohse v. The Queen*²; *Shenton v. Smith*³; *Dunn v. The Queen*⁴; *Gould v. Stuart*⁵; *Young v. Adams*⁶; *Young v. Waller*⁷; *In re Hales and Hales v. The King*⁸; *Denning v. Secretary of State for India in Council*⁹; *Reilly v. The King*¹⁰; *R. Venkata Rao v. Secretary of State for India*¹¹, on which Mr. Henry specially relied; *Genois v. The King*¹²; *Lucas v. Lucas and High Commissioner for India*¹³; *Rodwell v. Thomas et al.*¹⁴; *Terrell v. Secretary of State for the Colonies et al.*¹⁵; and *Inland Revenue Commissioners v. Hambrook*¹⁶. Mr. Henry submitted that these cases established certain propositions or principles, namely, that the principle of employment by the Crown at pleasure can be impaired only by statute; that purported agreements and rules as to procedure on dismissal, notice, term of office and the like are without legal effect if they are not statutory;

¹ (1833) 9 Bing. 692.

² (1886) 3 T.L.R. 114.

³ [1895] A.C. 229.

⁴ [1896] 1 Q.B. 116.

⁵ [1896] A.C. 575.

⁶ [1898] A.C. 469.

⁷ [1898] A.C. 661.

⁸ (1918) 34 T.L.R. 341 and 589.

⁹ (1920) 37 T.L.R. 138.

¹⁰ [1932] Ex. C.R. 14; [1932] S.C.R. 597; [1934] A.C. 176.

¹¹ [1937] A.C. 248.

¹² [1937] Ex. C.R. 136.

¹³ [1943] P. 68.

¹⁴ [1944] K.B. 596.

¹⁵ [1953] 2 Q.B. 482.

¹⁶ [1956] 1 All E.R. 807.

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that an employee of the Crown has no right of action against the Crown if there has not been any breach of statute; and that an employee of the Crown has no legally enforceable right to continued employment by the Crown in the absence of a statutory security of tenure.

Since the conclusion of the hearing at Saskatoon last Wednesday, which lasted three days, I have reviewed all the cases to which Mr. Henry referred and agree that they lay down the principles stated by him but I have some observations to make. In Canada the right of the Crown to dismiss persons employed in the Civil Service of Canada is statutory and it is not necessary to consider its source or whether it is a term imparted into the contract of employment of the civil servant or whether consideration of public policy demand its unimpaired maintenance. So far as employees of the Civil Service of Canada are concerned the right to dismiss them at pleasure is specifically set out in section 19 of the *Civil Service Act* and no further enquiry into the existence of the right is necessary.

And I have come to the conclusion that the case at bar is distinguishable from the *Venkata* case (*supra*) on which Mr. Henry specifically relied. In that case the appellant, who held office in the civil service of the Crown in India as a reader in the Government Press, Madras, fell under suspicion of being concerned in a leakage of information in respect of certain examination papers, and was dismissed from the service and claimed damages for wrongful dismissal. Section 96B of the *Government of India Act* provided that "subject to the provisions of this Act and of rules made thereunder, every person in the civil service of the Crown in India holds office during His Majesty's pleasure, . . ." and the rules made under the section were certain classification rules. One of them, Rule XIII, provided that without prejudice to the provisions of any law for the time being in force, the Local Government might for good and sufficient reasons dismiss any officer holding a post in a provincial or subordinate service or a special appointment. And another rule, Rule XIV, provided that without prejudice to the provisions of the *Public Servants Inquiries Act*, 1950, in all cases in which the dismissal, removal or reduction of any officer was ordered, the order should, except when it was based on facts or conclusions established at a judicial trial, or when the officer concerned

had absconded with the accusation hanging over him, be preceded by a properly recorded departmental enquiry, and the rule went on to prescribe how such enquiry was to be made. It was established that in the appellant's case the requirements of Rule XIV had not been satisfied. Accordingly, the appellant contended that the statute gave him a right enforceable by action to hold his office in accordance with the rules, and that he could only be dismissed as provided by the rules and in accordance with the procedure prescribed thereby. His contention was denied by the Courts in India and their decision was affirmed by Lord Roche who delivered the judgment of their Lordships of the Judicial Committee of the Privy Council.

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I must say that if the suppliant's only claim had been for damages for wrongful dismissal by reason of failure to comply with a procedural requirement the decision in the *Venkata* case (*supra*) would have been against him. I have already dismissed his claim for wrongful dismissal. But that is not his claim in paragraph (c) of his prayer for relief. He does not in that paragraph claim damages for wrongful dismissal. His claim is for damages for not having been given the opportunity, prior to his dismissal, to present his side of the case to a senior officer of the department nominated by the deputy head. That is a different kind of a claim from a claim for wrongful dismissal. That kind of a claim was not in the *Venkata* case (*supra*) and there is nothing in the decision in that case that denies it. The kind of claim that the suppliant makes in paragraph (c) of his prayer was not considered in any of the cases to which Mr. Henry referred. Indeed, so far as I have been able to ascertain, it has not been considered in any case previous to this one.

Nor should the suppliant's claim under paragraph (c) be considered as the assertion of a right not to be dismissed without having been given the opportunity to present his side of the case to a senior officer of the department nominated by the deputy head for a claim on such a basis would, in effect, be a claim for wrongful dismissal and the decision in the *Venkata* case (*supra*) would be conclusive against it.

There is, in my opinion, an essential difference between the kind of a claim that was disallowed in the *Venkata* case (*supra*) and the suppliant's claim in paragraph (c) of his

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prayer for relief. The former was a claim for damages for wrongful dismissal and was, in effect, a denial of the Crown's statutory right to dismiss at pleasure. But the suppliant's claim under section 118 of the Regulations is simply a claim for damages for the denial of a right given by the section and does not deny or impair or lessen the right of the Crown under section 19 of the *Civil Service Act* to dismiss the suppliant at pleasure. When the opportunity prescribed by section 118 of the Regulations has been given the Crown's right to dismiss at pleasure is not affected in any way.

It was agreed that the term "employee" in section 118 of the Regulations covered the suppliant, even although his employment was of a temporary nature, but it was argued by Mr. Henry that section 118 of the Regulations was *ultra vires*. He reviewed the scheme of the *Civil Service Act*, referring to its various sections, and submitted that the function of dismissing employees of the civil service was not vested in the Civil Service Commission, that section 118 of the Regulations tended to frustrate the policy of the Act and operated as a clog on the right of dismissal of civil servants prescribed by section 19 of the Act and, consequently, was beyond the power of the Civil Service Commission to make and the Governor in Council to approve. I do not agree. Section 5 of the Act gives the Civil Service Commission a very wide discretion. It may make regulations "as it deems necessary or convenient" for carrying out the Act. Under the circumstances, I do not see how the Court could contradict its expression of opinion and say that section 118 of the Regulations was beyond its powers. In my opinion, its decision that section 118 was necessary or convenient for carrying out the Act cannot be challenged and must prevail.

So I find that section 118 of the Regulations was *intra vires*. That being so, it follows that the provisions of the *Civil Service Act* and the regulations made under it, having the force of law, must be read together and effect given to each. Section 118 of the Regulations ought not, therefore, to be construed as inconsistent with section 19 of the Act. In that view of section 118 of the Regulations all that it does is to give the civil servant whom it is proposed to dismiss an opportunity, prior to his dismissal, to present his side of the case to a senior officer of the department nominated by the deputy head. When that opportunity has

been given the right to dismiss at pleasure provided by section 19 of the Act is in full force and effect. The intentment of section 118 of the Regulations is plain, namely, that before the right of dismissal at pleasure under section 19 of the Act is exercised the employee proposed to be dismissed should be given the opportunity prescribed by the section. To the extent that it is of importance in the matter of interpretation it may properly be said that if it is not contrary to the public policy that a civil servant may be dismissed at pleasure that before his dismissal goes into effect he should be given the opportunity prescribed by section 118 of the Regulations.

I, therefore, find that an employee of the Civil Service of Canada has the right under section 118 of the Regulations to be given the opportunity, prior to his dismissal, of presenting his side of the case to a senior officer of the department nominated by the deputy head. This gives him a claim under section 118 of the Regulations and brings him within the jurisdiction of this Court under section 18(1)(d) of the *Exchequer Court Act*, R.S.C. 1952, chapter 98, which provides:

18. (1) The Exchequer Court also has exclusive original jurisdiction to hear and determine the following matters:

(d) Every claim against the Crown arising under any law of Canada or any regulation made by the Governor in Council.

In my opinion, the suppliant has a claim arising under a regulation made by the Governor in Council, namely, a claim under section 118 of the Civil Service Regulations. He had a right under that section to be given the opportunity, prior to his dismissal, to present his side of the case to a senior officer of the department nominated by the deputy head. I find as a fact that this right was not given to him. It is a fundamental principle that the violation of a right gives a cause of action: *vide Ashby v. White*. Here there was a denial of a right to which the suppliant was legally entitled and he has a right to damages therefor.

It is difficult in a case such as this to determine the quantum of damages, but the difficulty of assessing damages is not a reason for not assessing them. I do not think that this is a case for nominal damages. The damages were real but they are difficult to determine. While I think it is obvious from the evidence of Mr. Duggleby that he was determined to get rid of the suppliant out of his Post Office and that if

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the reason assigned for his dismissal had been found to be unsound another reason would have been given or the suppliant would have been dismissed in any event, the suppliant had a right to the opportunity given to him by section 118 of the Regulations and compliance with that right would, in all likelihood, have given him longer employment in the Post Office than that which he had and the wages for such continued employment. It is difficult to say how long that might have been. If the delay between Mr. Duggleby's recommendation of July 7, 1954 that he could not recommend the suppliant's retention in the service and Mr. MacNabb's instruction of September 7, 1954, that he should be dismissed with two weeks' notice is any criterion, the time of continued employment of the suppliant while the machinery was being set up for giving him the opportunity prescribed by section 118 of the Regulations might have been substantial. And while it is not likely, in view of Mr. Duggleby's determination to get rid of the suppliant, that even if he had been able to satisfy the senior officer of the department appointed by the deputy head that the reason assigned for his dismissal was not substantiated, he would not have been dismissed on other grounds, or even without grounds, the possibility that his ultimate dismissal might have been delayed is a factor to be considered.

In view of these contingencies, all of them of an imponderable character, I think it would not be unfair to assess the suppliant's damages at \$500 and I award this amount.

There will, therefore, be judgment declaring that the suppliant is entitled to damages in the sum of \$500. He is also entitled to costs to be taxed in the usual way without regard to limitation by reason of the amount awarded.

Judgment accordingly.

BETWEEN:

ALEX W. MITCHELL APPELLANT;

AND

THE MINISTER OF NATIONAL }
REVENUE } RESPONDENT.

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Oct. 10

Revenue—Income tax—Surtax—Income Tax Act, R.S.C. 1952, c. 148, ss. 3, 6(1), 32(1), 32(3), 32(4), 32(5), 67(1), 67(10), 67(11)—Surtax on investment income—Dividends from personal corporations investment income in hands of receiver.

In his income tax return for 1955 the appellant included the sums of \$27,648.08 received from Ruth Realty Company Limited and \$5.77 received from Mitchell Consolidated Stores Limited as income received from personal corporations. The two corporations were personal corporations and the sums received by the appellant from them represented respectively their net rental income from real property. In reassessing the appellant for 1955 the Minister added surtax on the said sums. The appellant objected on the ground that the sums were not investment income and not subject to surtax but the Minister confirmed the assessment and the appellant brought the present appeal.

Held: That the income of the personal corporations was earned income in their hands because it came to them as rental from real property but the income of the appellant did not come to him as rental income from real property. Under section 67(1) of the Act it was deemed to have been distributed to, and received by, him as a dividend and was not "earned income" in his hands within the meaning of section 32(5) of the Act but "investment income" within the meaning of section 32(4) and subject to surtax under section 32(3).

2. That the appeal from the assessment must be dismissed.

APPEAL from income tax assessment.

The appeal was heard before the President of the Court at Winnipeg.

D. C. McGavin for appellant.

F. J. Cross for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (October 10, 1957) delivered the following judgment:

This is an appeal from the appellant's income tax assessment for 1955. The facts from which it arises are not in dispute. In the amount of taxable income reported by the

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appellant within the meaning of the *Income Tax Act* and included the sum of \$27,653.85 as income received by him from personal corporations, made up of \$27,648.08 from Ruth Realty Company Limited and \$5.77 from Mitchell Consolidated Stores Limited. When the Minister re-assessed him for 1955, as appears from the notice of re-assessment, dated November 16, 1955, he added surtax on the said sum. The appellant objected to the addition on the ground that the sum of \$27,653.85 was not investment income of the appellant within the meaning of the *Income Tax Act* and surtax on it should not have been assessed to him. The Minister confirmed the assessment on the ground that the dividends deemed to have been received by the taxpayer from the personal corporations of Ruth Realty Company Limited and Mitchell Consolidated Stores Limited under the provisions of subsection (1) of section 67 of the Act were investment income within the meaning of subsection (4) of section 32 of the Act. The appellant then brought his appeal from the assessment to this Court.

The issue in the appeal is a narrow one, namely, whether the amounts received by the appellant from the two corporations referred to are subject to the surtax which the Minister added. The determination of the issue depends on whether the amounts were investment income in the hands of the appellant or earned income. If they were the former the surtax was properly added; if they were the latter the addition of the surtax was erroneous. The determination turns on certain sections of the *Income Tax Act*, R.S.C. 1952, Chapter 148.

Section 32(1) of the Act sets out the rates of tax payable by an individual under Part I of the Act upon his taxable income or taxable income earned in Canada, as the case may be, for a taxation year. And section 32(3) provides for surtax as follows:

32(3) There shall be added to the tax of each individual computed under subsection (1) for each year an amount equal to 4% of the amount by which the taxpayer's investment income for the year exceeds the greater of

- (a) \$2,400 or
- (b) the aggregate of the deduction from income for the year to which he is entitled under section 26.

Section 26 sets out the deduction from his income for the year that may be made by an individual for the purpose of

computing his taxable income for a taxation year, such as for his status, children, and other dependents, etc.

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Whether the surtax under section 32(3) may be added depends on whether the amount in respect of which it is to be added is investment income. Section 32(4) defines investment income. It reads:

32(4) For the purpose of this section, "investment income" means the income for the year minus the aggregate of the earned income for the year and the amounts deductible from income under paragraphs (a), (c) and (d) of subsection (1) of section 27.

The said paragraphs set out the deductions from his income for the year that may be made by a taxpayer for the purpose of computing his taxable income for a taxation year for charitable donations, medical expenses and blind persons. And section 32(5) defines earned income. It reads:

32. (5) For the purpose of this section, "earned income" means

- (a) salary or wages, superannuation or pension benefits, retiring allowances, death benefits, royalties in respect of a work or invention of which the taxpayer was the author or inventor, and amounts allocated to the taxpayer by a trustee under an employees profit sharing plan,
- (b) income from the carrying on of a business either alone or as a partner actively engaged in the business, and
- (c) rental income for real property.

It is assumed that the two corporations referred to, namely, Ruth Realty Company Limited and Mitchell Consolidated Stores Limited were personal corporations within the meaning of the Act. They were so treated by the Minister, for what such treatment is worth. Consequently, section 67(1) of the Act must be considered. It provides:

67(1) The income of a personal corporation whether actually distributed or not shall be deemed to have been distributed to, and received by, the shareholders as a dividend on the last day of each taxation year of the corporation.

And consideration must also be given to section 6(i) of the Act which provides:

6. Without restricting the generality of section 3, there shall be included in computing the income of a taxpayer for a taxation year

- (i) amounts deemed to have been received in the year by the taxpayer under section 67 as a shareholder in a personal corporation;

The evidence before me established that the sum of \$27,648.08, the amount received by the appellant from

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Ruth Realty Company Limited, was the net income of Ruth Realty Company Limited coming to it as rental income from real property. It was also proved that the sum of \$5.77, the amount received by the appellant from Mitchell Consolidated Stores Limited, was the net income of Mitchell Consolidated Stores Limited coming to it as rental income from real property.

It was accordingly contended that the said amounts were earned income within the meaning of section 32(5) of the Act. In view of the evidence there is no doubt that the said amounts were "earned income" in the hands of the personal corporations referred to.

And it is clear that if an item of income is "earned income" within the meaning of section 32(5) of the Act it cannot be "investment income" within the meaning of section 32(4) and, consequently, is not subject to surtax under section 32(3).

But here I part company with counsel for the appellant. He submitted that the nature of the income continued to be rental income from real property in the hands of the appellant as it had been in the hands of the personal corporation and that, accordingly, the income received by him from the said personal corporations was earned income within the meaning of section 32(5) of the Act. I disagree. The income of the personal corporations was earned income in their hands because it came to them as rental income from real property but the income of the appellant did not come to him as rental income from real property. Under section 67(1) of the Act it was deemed to have been distributed to, and received by, him as a dividend. As such it was properly included in computing his income for 1955. It is, in my opinion, clear that while the amounts were earned income within the meaning of section 32(5) of the Act in the hands of the corporation, they were not earned income in the hands of the appellant. His income was not "rental income from real property", but income deemed to have been distributed to, and received by, him as a dividend. That being so, it was not "earned income" in his hands, within the meaning of section 32(5) but "investment income" within the meaning of section 32(4) and, consequently, subject to surtax under section 32(3).

I have considered the decisions in *Black v. The Minister of National Revenue*¹ and *Minister of National Revenue v. Trans-Canada Investments Corporation Ltd.*², to which counsel for the appellant referred and on which he relied, and do not find in either of them anything inconsistent with the view that I have expressed. And sections 67(10) and 67(11) of the Act, to which counsel referred, have no bearing on the issue in this case.

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In my opinion, the Minister was plainly right in adding surtax to the amount reported by the appellant on his return. His appeal from the assessment must, therefore, be dismissed with costs.

Judgment accordingly.

BETWEEN:

MANITOBA DAIRY & POULTRY CO- }
 OPERATIVE LTD. } APPELLANT;

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 Oct. 7-9
 Nov. 6

AND

THE MINISTER OF NATIONAL }
 REVENUE } RESPONDENT.

Revenue—Income tax—The Co-Operative Associations Act, S. of M. 1916, c. 23—The Companies Act, S. of M. 1932, c. 5—The Companies Act, R.S.M. 1940, c. 36, s. 123, as amended, S. of M. 1943, c. 6, s. 125, s. 127(3A), as added, S. of M. 1947, c. 7, s. 138—Substance of transaction rather than form to be regarded—Appellant a co-operative marketing association for marketing members' produce—Surplus earned by appellant did not have essential quality of income to it—Surplus earned by appellant not owned by it but held for members.

The appellant was organized as a co-operative association whose membership consisted entirely of producers of poultry, eggs and dairy products who marketed their produce through it. The members were not bound to deliver any products to the association but its by-laws were made binding on it and its members. Article 8A of the by-laws provided that the surplus arising from the yearly business of the association should be credited to the members entitled thereto in proportion to the volume of business respectively done with it and also that the association might borrow from the members for a revolving fund to enable it to carry on business amounts up to their shares of the surplus in consideration of the promise of the association to repay such amounts as soon as monies became available for the purpose. When a member delivered produce to the association to be marketed by it he received

¹ [1932] Ex. C.R. 8.
 50726-134

² [1956] S.C.R. 49.

an advance or first payment and awaited final payment. At the end of each year's operation the association made an accounting to its members. At its annual meeting, held soon after the close of its fiscal year, it passed a resolution, pursuant to Article 8A of the by-laws, whereby the surplus for the past year was allocated and credited to the members entitled thereto and the association borrowed from the members a sum equal to the patronage dividends credited to them to be repaid as soon as monies became available for the purpose. The Minister assessed the association to income tax for each of the years from 1948 to 1951 on the surplus in each year on the ground that it had earned the surplus from its business and was entitled to it. The association appealed to the Income Tax Appeal Board which dismissed its appeals and the appellant appealed from its decision to this Court. The issue in the appeal was whether the surplus referred to was taxable income of the association or held by it for its members to whom it must account.

Held: That the case is not essentially different in principle from *The Horse Co-Operative Marketing Association, Limited v. Minister of National Revenue* [1956] Ex. C.R. 393.

2. That regard should be had to the substance of the transaction under consideration rather than its form and that it is the true nature of the transactions between the members and the association that falls to be determined.
3. That when the members delivered their produce to the association they did not sell it to the association but delivered it to the association to be marketed by it for them.
4. That the association was not a trading corporation, in the ordinary sense of the term, and did not purchase its member's produce from them.
5. That the appellant was not engaged in "an operation of business in carrying out a scheme for profit making".
6. That the appellant was a co-operative marketing association for the marketing of its members' produce. It was their marketing agency and the means whereby, in their opinion, they would be able, by co-operation with one another through it, to obtain more for their produce than if they sold it to an outside organization and that when the association received the produce from its members and sold it it did so as the members' marketing agent and held the net proceeds from the sale of the products in that capacity.
7. That the dealings of the members with the association was in their capacity as members acting co-operatively through it as their marketing agent and not in that of patrons doing business with it.
8. That when the association earned a surplus from its business of handling its members' produce for them it did not earn it for itself, but for them and it did not own the surplus.
9. That the surplus did not have the quality of income to the appellant that was essential to its being taxable income in its hands, within the meaning of the test used by Mr. Justice Brandeis in delivering the judgment of the Supreme Court of the United States in *Brown v. Helvering* (1934) 291 U.S. 193, in that its right to the surplus was not absolute and it was not free to dispose of it or to use or enjoy it and that the surplus had to be credited to the members and was held by the association for them and on their behalf.

10. That, in the alternative, if it should be considered that the member's delivery of his produce to the association constituted a sale of it by him to it then the amount credited to him pursuant to Article 8A would be part of the cost of the produce to the Association and there would be nothing left to constitute profit to it.
11. That the appeal from the decision of the Income Tax Appeal Board and from the assessments must be allowed.

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APPEAL from decision of the Income Tax Appeal Board.

The appeal was heard before the President of the Court at Winnipeg.

W. B. Francis, Q.C., and *D. E. Gauley, Q.C.*, for appellant.

F. J. Cross, for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (November 1957) delivered the following judgment:

This is an appeal from the decision of the Income Tax Appeal Board¹, dated May 25, 1955, dismissing the appellant's appeals from its income tax assessments for the years 1948, 1949, 1950 and 1951.

The appellant, hereinafter usually called the association, was originally incorporated on June 19, 1924, as Manitoba Co-Operative Poultry Marketing Association under *The Co-Operative Associations Act*, Statutes of Manitoba, 1916, Chapter 23, upon the co-operative plan, pursuant to a memorandum of association, dated June 12, 1924. *The Co-Operative Associations Act* was repealed in 1932 by *The Companies Act*, Statutes of Manitoba, 1932, Chapter 5, and co-operatives were brought under Part VI, subsequently Part VII, of the said Act. Section 118 of that Act carried forward into section 123 of *The Companies Act*, R.S.M. 1940, Chapter 36, which, as amended in 1943, Statutes of Manitoba 1943, Chapter 6, provided:

123. This Part shall apply to applications for letters patent for the creation of corporations to be operated on a co-operative basis, and to those corporations when incorporated; and to corporations heretofore incorporated under "The Co-Operative Associations Act" or any Act for which it was substituted in the same manner as if they had been incorporated by letters patent.

¹ (1955) 13 Tax A.B.C. 88.

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Thus the association, which had been incorporated as a memorandum of association company, became, in effect, a letters patent company and stood in the same position as if it had been incorporated under Part VII of *The Companies Act*.

The appellant's capital, which had originally consisted of 20,000 shares of the par value of \$1 each, was increased on March 11, 1939, to 40,000 shares of the par value of \$1 each and on April 30, 1946, to 200,000 shares of \$1 each, the increase in each case being authorized by Supplementary Letters Patent under *The Companies Act*.

Prior to the years in question in this appeal, there was another marketing association operating in Manitoba, known as Manitoba Co-Operative Dairies Ltd., but early in 1947 the appellant took it over by acquiring its shares and assuming its liabilities. Then by Supplementary Letters Patent, dated May 14, 1947, the appellant's capital was further increased to 500,000 shares of \$1 each and its name changed to its present one.

The issue in the appeal is a narrow one. It turns on the nature of the transactions between the appellant association and its members and the character of the surplus in its hands at the end of each year of its operations. Was this surplus taxable income of the association or was it held by it for its members to whom it must account?

The association's membership consisted entirely of producers of poultry, eggs and dairy products who marketed their produce through it. This appears from its by-law relating to membership. Article 11(1) provided:

The term "Member" when used herein shall include "Shareholder" and "Membership Fee" shall include the cost of a share of capital stock.

And Article 11(2) (a) read as follows:

Membership in the Association shall be extended to all persons who market agricultural products through the Association. A formal written application for membership shall not be necessary, but delivery of agricultural products for marketing shall be accepted by the Association as the equivalent of an application for membership.

And Article 11(2) (b) should also be considered. It provided:

There shall be deducted and retained by the Association out of the first and subsequent settlements to any person who has marketed products through the Association, including shareholder members, a total amount equal to the par value of sufficient shares in the capital stock of the

Association to bring such person's holdings up to a total of ten shares of \$1.00 each; provided, however, that deductions from members' settlements for the purpose of payment of the purchase price of shares shall, unless the purchasing member directs larger deductions, be limited to the following amounts:

(1) Deductions for purchase of shares of new members shall be limited to \$1.00 for the first year, and \$2.00 per annum thereafter until paid;

(2) Deductions for purchase of additional shares by members already holding one share shall be limited to \$2.00 per annum until paid.

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Moreover, it appears to have been intended that the membership should be confined as far as possible to *bona fide* producers. For example, Article 4(1) provided:

The Directors shall have the general management and control of the business of the Association and shall have power:

- (a) To allot, and approve the transfer of shares in the capital stock of the Association, but with power to refuse the allotment, or transfer of any of the said shares to anyone other than a *bona fide* producer of poultry and dairy products.

The members were not bound by contract to deliver any products to the association but its by-laws were made binding on it and its members by subsection (3A) of section 127 of *The Companies Act*, which was added to it in 1947, Statutes of Manitoba, 1947, Chapter 7. This subsection provided as follows:

The by-laws of the corporation shall bind the corporation and its members to the same extent as if they had respectively been signed and sealed by each member, and contained covenants on the part of each member, his heirs, executors and administrators, to observe all the provisions of the said by-laws, subject to the provisions of this Act.

This enactment obviated the necessity or desirability of individual contracts between the association and its members.

One of the association's by-laws, Article 8A, provided for the manner in which the surplus in the appellant's hands at the end of each year of its operations must be dealt with and for the creation of a revolving fund by the association borrowing sums of money from the members and subsequently repaying the borrowed amounts. While this article was passed prior to the enactment of subsection (3A) of section 127 of *The Companies Act* I assume that the subsection gives statutory binding effect to it. Article 8A provided:

- (1) After payment of expenses, making proper allowance for depreciation, and after setting aside necessary reserves, the surplus arising from the yearly business of the Association shall be credited to the members

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entitled thereto in proportion to the volume of business which they have respectively done with the Association, with appropriate differences for the different kinds of produce delivered by each.

(2) In consideration of the Association promising to repay to each member, without interest, and as soon as monies become available for that purpose in the revolving fund heretofore established by it, such sums as the Association may borrow hereunder from year to year, each member of the Association agrees to lend to the Association this year, and in each year hereafter upon said terms, a sum of money equal to the amount of the patronage dividends credited to him by the Association, or such part thereof as the Association may desire to borrow, and the Association is by virtue hereof authorized to apply the said dividends of each member on the said loan during such time as he remains a member of the Association.

(3) The Association may repay the said loans, or any part thereof, at any time without notice or bonus.

The association's fiscal year ended on January 31 in each year and its annual meeting was held soon thereafter. At each of the annual meetings held in 1948, 1949, 1950 and 1951 following soon after the close of the fiscal year in such years the following resolution was passed:

BE IT RESOLVED, that pursuant to provisions of Section 8-A of the general By-laws of the Association, the surplus for the past year be allocated and credited to the Members entitled thereto and that the Association do borrow from the said Members a sum equal to the amount of patronage dividends so credited to them to be repaid as soon as monies become available for that purpose.

A description of the organization of the appellant association and the manner in which it operated was given by Mr. J. T. Monkhouse, its president and managing director. The area served by the association was the Province of Manitoba but a few shippers from Saskatchewan used its marketing facilities. The control of the association was vested in its members who were 35,000 in number, distributed among 70 locals divided into 7 districts. The members of each local met at least once a year to elect a delegate or delegates to attend the annual meeting of the association. There were, of course, other meetings of the locals called for the discussion of questions affecting their co-operative. The delegates elected by the locals attended the annual meeting of the association which was held shortly after the end of its fiscal year. At such meeting the delegates received reports from the management on the operation for the fiscal year just concluded and passed a resolution pursuant to Article 8A allocating to the credit of the individual members the surplus in the hands of the association from such

operation. The delegates also elected directors for the current year, one for each of the districts. During the year the members were kept fully informed of the activities of the association.

Mr. Monkhouse then gave a general description of the association's facilities for handling its members' products, consisting principally of poultry, eggs and cream, and of a member's transaction with it. The association had 5 killing plants, 41 egg stations and 9 creameries. If a farmer wished to deliver live poultry, that is to say, turkeys, ducks or fowl, to the association he delivered it to one of the killing stations. There the poultry was killed, packed and sent to a local market or into storage for future sale either in one of the Manitoba cities or outside. On the delivery of the poultry the farmer received an advance payment on the basis of a grade statement handed to him and then awaited final payment in respect of the poultry delivered by him during the year, knowing that the association would make a full accounting to him at the end of the year's operations. If the farmer wished to dress the poultry himself he could deliver his dressed poultry and was dealt with in the same way as if he had delivered live poultry, the only difference being that if he delivered live poultry he was charged with the cost of killing and such cost was deducted from his advance.

If a farmer delivered eggs to one of the association's egg stations the procedure was similar. He received an advance payment on the basis of a grade statement of the eggs delivered and a final payment later.

When a farmer shipped cream to one of the association's creameries it was graded and he received an advance payment based on its grade and butter-fat content. The creamery then manufactured the cream into butter and this was sold by the association for the best price obtainable. At the end of the year a full accounting was made to the cream shipper on the basis of his total shipments, with a proper deduction for the cost of manufacturing the butter.

There was one creamery, namely, at Brandon, that received milk. The shipper received an advance on the milk delivered by him based on the price fixed by the Milk Control Board. The association pasteurized the milk, bottled it and sold it to residents of Brandon. The final accounting to

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milk shippers was based on the butter-fat content of the milk in the same way as if they had delivered cream. And it should be noted that the milk shippers were all also cream shippers.

At the end of the year's operation there was a final accounting by the association to its members. At the annual meeting called after the close of the fiscal year a resolution was passed whereby, pursuant to Article 8A of the by-laws, an appropriate amount out of the year's surplus was credited to each member by allocating the same to him. But the amount so allocated and credited was not then paid to him but was loaned to the association, also pursuant to a resolution under Article 8A, and the amount of such loan was repaid to the member later.

Mr. Monkhouse also gave particulars of some other matters. In 1949, 1950 and 1951 the association conducted what was called a "Turkey Pool". This was a seasonal activity of short duration. When the shipper delivered his poultry to this pool he received an advance payment at the time of the delivery and his final payment at the end of the year.

There were several activities of the association which Mr. Monkhouse described as incidental. One of these was the operation of hog ranches. Hogs were purchased in order to make use of the buttermilk from the creameries, which would otherwise have had to be hauled away. The hogs were sold and the proceeds of their sale in excess of their cost were considered as a réduction in the cost of butter manufacture. Another auxiliary operation was the renting of cold storage lockers for the use of members living near the creameries at Dauphin and Brandon. This was a service to such members and was rendered at cost. Another incidental operation was that of a subsidiary called Canadian Poultry Sales. The association had originally employed a sales agency to sell its members' products in markets other than its local ones such as in Montreal, Toronto and overseas, but in the years in question it used Canadian Poultry Sales, a subsidiary co-operative established by it in conjunction with the Saskatchewan Co-operative Creameries, to dispose of its members' products in such outside markets. The association paid this sales agency for the service rendered by it. It collected the amounts for which the products had been sold and returned the net proceeds of the sales to the

association thus rebating to it the cost of selling less expenses. The amount thus returned was a reduction in expense and, consequently, entered into the association's surplus. Another small operation, the sale of ice cream, was carried on at one creamery only, namely, at Brandon. It was dealt with in the same way as if butter, instead of ice cream, had been made and sold. Reference was also made to the purchase of some butter from Canadian Government stores but Mr. Monkhouse explained that this had been purchased to meet the association's sales commitments and any earnings from the transaction had been used to reduce selling costs and, consequently, to increase the amount of the association's surplus.

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Mr. Monkhouse stated that any member could ship his produce to the association and only a member could do so. All shippers to it became members. The directors fixed the amount of the advance payment from time to time. This was usually less than the market price but might be equal to it. The final payment was by way of an allocation or credit of the appropriate part of the surplus pursuant to Article 8A, as already described.

Mr. Monkhouse gave as an example of a transaction between a member and the association what had happened in his own case. He had shipped poultry, eggs and cream in each of the years in question. On each shipment he received an advance based on a grade statement of the produce delivered. At the end of each year an allocation of the surplus was made to him pursuant to Article 8A. And, to illustrate the conclusion of his transaction, he stated that the amount allocated to his credit in respect of his deliveries in 1948 was finally all repaid to him in 1955.

Three witnesses were called for the appellant to show the course of a transaction between a member and the association from the delivery of the member's produce to the receipt of his final payment, Mr. A. McPhail, a poultry and egg shipper, Mr. A. Guild, a poultry, egg and cream shipper, and Mr. E. S. Jackson, the appellant's secretary-treasurer.

I shall deal first with the evidence of Mr. McPhail. He had been a member of the appellant association since 1926 and had shipped poultry and eggs to it. He participated in the Turkey Pool of 1948. On December 11, 1948, he delivered poultry to the association's local agent at Rossburn and

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received a grade statement showing the number of birds, the number of pounds of each and the amount to his credit, together with a cheque for \$34.92. He considered this to be a first payment on his poultry. On March 1, 1949, he received another statement showing the grade of the poultry delivered by him, the number of pounds, the price, and the value, which came to \$38.55. From this amount the advance of \$34.92 had been deducted leaving a balance of \$3.63 and a cash ticket for this amount was attached to the statement. This closed his 1948 Turkey Pool transaction.

I now turn to his deliveries other than as a participant in a Turkey Pool. For example, on July 28, 1948, he delivered poultry to the association's shipping point at Brandon and received a grade statement, called a dressed poultry produce voucher, showing number of birds, grade, number of pounds, price and value coming to a total of \$68.37, less processing and transportation charges of \$9.49, and received a cheque for \$58.88. This was a sample transaction. Similarly, on December 4, 1948, he delivered eggs to the association and received a statement, called a produce record, showing the grade of the eggs, the number of dozens, the rate and the amount coming to a total of \$5.49 and a cheque for that amount. This was another sample transaction. Mr. McPhail stated that he had made other shipments of poultry and eggs to the association in each of the years in question and that when he made deliveries he received statements from the association similar to the ones referred to. Subsequently, he received statements showing the amounts of the additional payments that had been allocated to him. These are, in my opinion, important. I set out the statement regarding his poultry shipments as follows:

MANITOBA DAIRY & POULTRY CO-OPERATIVE LTD.
 Owned and Operated By Over 30,000 Farmers—1950

A. McPhail,

Vista, Man.

Dear Member:

Your association being a co-operative finances on a revolving surplus fund. This means that your savings are not immediately payable in cash, but are allocated each year and then borrowed from the members to provide the necessary finances for carrying on the business.

At this time we are pleased to advise you that your additional payments based on the savings realized by your Association are as follows:

Lbs. of Poultry shipped in 1947 @ 2.52%	\$ 8.97
“ “ “ “ “ 1948 @ 4.94%	\$18.46
“ “ “ “ “ 1949 @ 1.24%	\$ 5.57

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These will be paid out in accordance with our By-laws, subject to the approval of our members at each General Annual Meeting. On this basis 1947 savings—less deductions for shares—must be paid in full before any additional earnings for 1948, or later years, can be made.

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This statement was filed as Exhibit 12. There were similar statements regarding his additional payments in respect of eggs, filed as Exhibits 15 and 16. Exhibits 12, 15, and 16 show the totals of the amounts of his additional payments as follows: for 1947, \$8.97 for poultry and \$8.61 for eggs, or a total of \$17.58; for 1948, \$18.46 for poultry and \$1.43 for eggs, or a total of \$19.89; and for 1949, \$5.57 for poultry and \$6.98 for eggs, or a total of \$12.55. On June 15, 1951, Mr. McPhail received \$4.31 on account of his \$8.61 for eggs and on September 1951 \$4.49 on account of his \$8.97 for poultry. In each case he received a statement with his cheque showing for the year ending January 31, 1948, his share of the surplus at \$8.61 for eggs and \$8.97 for poultry. These statements were filed as Exhibits 17 and 13 respectively.

I now turn to Mr. Jackson's evidence to show what finally happened in Mr. McPhail's case. He stated that there was a list showing what produce each member had delivered. This list was compiled by stations and he had gone through the lists that would include Mr. McPhail's name and verified the amounts of his deliveries of poultry and eggs. Mr. Jackson then produced a statement, called Patronage Dividend Record, filed as Exhibit 22. This showed the total allocations to Mr. McPhail of \$17.58 for 1947, \$19.89 for 1948 and \$12.53 for 1949. The record showed that these amounts were all borrowed by the association and that the amounts so borrowed were repaid later. For example, the amount of \$17.58 was repaid by \$8.80 in 1951, corresponding with the amounts of the cheques for \$4.31 and \$4.49 received with the statements, Exhibits 17 and 13, and the balance of \$8.78 in 1953; the amount of \$19.89 for 1948 was repaid in 1954 and the amount of \$12.53 for 1949 in 1956.

The evidence of Mr. A. Guild was of a similar nature. He shipped cream as well as poultry and eggs. With each shipment he received a grade statement and a cheque for the

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amount shown on it. Later, he received statements similar to Exhibits 12, 15 and 16 and then statements similar to Exhibits 13 and 17 and with them a cheque for the amount of the payment shown on them. His Patronage Dividend Record, filed as Exhibit 23, showed that his total allocations came to \$112.53 for 1947, \$73.44 for 1948 and \$92.14 for 1949. The Record also showed that \$2.00 was deducted for shares from the amount of \$112.53 for 1947 and that the balance of \$110.53, all of which was loaned to the association, was repaid to him by \$57.03 in 1951 and \$53.50 in 1953, that the amount of \$73.44 for 1948 was repaid in 1954 and that of \$92.14 for 1949 in 1956.

Mr. McPhail, whose evidence impressed me favorably, explained that he could have delivered his produce to organizations other than the appellant association but made his deliveries to it because, to use his words, "we had formed a local to handle our own products, poultry and eggs, and we believed we could obtain a better price than we could obtain from other organizations". The association told its members in advance what they were to get. In most cases it was equal to the price quoted by competitors but in some cases it could be less. The members expected that the association would sell their produce to the best advantage and anticipated that it might be shipped and sold at outside points or stores until prices might be higher. Mr. McPhail was familiar with Article 8A of the by-laws and it was his understanding of the reference in it to the term "the surplus arising from the yearly business of the Association" that the association was carrying on a business and that a surplus would arise from it. In his view, the business consisted of "the handling of our produce until it reached the consumer" and he considered that a surplus would arise on the sale of the products in various markets for a price that would allow a surplus, meaning thereby an excess of receipts over expenses and the advance payments that had been made. By "our produce" Mr. McPhail meant his own produce and that of his neighbors who were members of the association and, while he had no contract whereby the property in his produce continued to be his and expected only money in return for it, he considered that the net proceeds of its sale was his.

Mr. Guild's evidence was essentially to the same effect although on his cross-examination he was confused in some

of his statements, but I am satisfied that this confusion was one of terminology and not of substance.

Mr. Guild was not alone in his confusion of terminology. It showed on the forms used by the association. But the confusion was substantially cleared away by Mr. Jackson. He stated that the amount received by a member on the delivery of his produce to the association was a first payment or an advance. Its amount was determined by the management on a day to day basis and approximated the price paid by competitors. When a member delivered his produce to the association it did not purchase the produce from him and Mr. Guild's statement that it did so was erroneous. The use of the term "purchase" to describe the association's receipt of its members' produce was erroneous and such terms as "price" and "value" appearing on the statement, called dressed poultry produce voucher, were inaccurate. The term "price" should have been read as meaning "initial payment" or "advance".

Then Mr. Jackson explained the so-called final payments. The member's entitlement to his share of the surplus was that it was his portion of the proceeds from the sale of his produce after deducting the expense of selling it and the advances or first payments that had been made to him. In that view, there were errors in the headings used in such statements as Exhibit 17 and 13 which Mr. McPhail received. For example, Exhibit 13 showed certain headings, one of which was "your share of surplus", under which the sum of \$8.61 appeared, which, as I have stated, was Mr. McPhail's allotment of surplus for eggs delivered in the year ending January 31, 1948. This statement was accurate. The other headings were "Credit to Share Acc't", \$4.30 and "Patronage Dividend", \$4.31. "Credit to Share Acc't", according to Mr. Jackson, was not a correct heading. It should have been called "Balance Still to be Paid", for that is what it really was. I agree with this view. The amount of \$4.30 was never credited to Mr. McPhail's share account. The heading "Patronage Dividend" \$4.31 was, likewise, not accurate. Actually, it was part of the sum of \$8.80 shown as Exhibit 22 as a loan repayment made to Mr. McPhail in 1951. And the said sum of \$8.80 was a part repayment of the loan of \$17.58 which Mr. McPhail had made to the association of the amount of the total allocation to his credit out of the surplus for the year ending January 31, 1948, for

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his deliveries of poultry and eggs during that fiscal year. And the heading "Patronage Dividend Record" on Exhibits 22 and 23 was not an accurate one. It should have been simply "Credit Record" or something of that sort for what the statement recorded was the amount of the allocation out of surplus and what was done with it, such as allocation in payment of shares and allocation to loan account, and then the statement recorded the repayments of the loans and the balance of loans remaining unpaid. This closes the statement of the facts.

I now come to the conclusion to be drawn from the facts. Counsel for the appellant relied strongly on the decision of this Court in *The Horse Co-Operative Marketing Association Limited v. Minister of National Revenue*¹. But before I deal with its applicability I should refer to counsel for the respondent's admission regarding the appellant association's Turkey Pool operations and his argument in support of the assessments.

During the course of the hearing he stated that the amounts of the final payments made to members in respect of the Turkey Pools operated in 1949, 1950 and 1951 were not taxable income to the appellant association and that it had been improperly assessed in respect of them. I agree. It follows that to the extent that such amounts were included in the assessments the appeals against them must be allowed. Here I must say that I do not see any fundamental difference between the association's Turkey Pool operations and its ordinary ones. The only difference appears to have been that a member who participated in a Turkey Pool received his final payment at the end of the appellant's fiscal year instead of lending it to the association and waiting for the repayment of the loan.

I now set out counsel for the respondent's argument in support of the assessments, as I understood it to be. He confined it to his interpretation of the meaning and effect of subsection (3A) of section 127 of *The Companies Act* and Article 8A(1) of the appellant association's by-laws. His submission was that the members of the association contemplated that it would carry on a business from which a surplus would arise and that such surplus as had arisen had been earned by it from its business and belonged to it.

¹ [1956] Ex. C.R. 393.

This was not a case, so the argument went, where the association was required to account to its members for the portion of the surplus that belonged to them but rather one where they contracted for a portion of such surplus after it had been earned by the association and it was urged that what was to happen to it after it had been earned could not alter the fact that since it had been earned by the association from its business it belonged to it and was taxable income in its hands. It was also submitted that this case differed from the *Horse Co-Operative* case (*supra*) in that there was no by-law in this case similar to By-law No. 15 in that case, but that, on the contrary, Article 8A of the by-laws of the appellant association was quite different from By-law No. 15 in the case referred to.

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I am unable to accept counsel's submissions in support of the assessments and have come to the conclusion that this case is not, in reality, essentially different in principle from the *Horse Co-Operative* case (*supra*). There are several reasons for this conclusion.

It is, I think, clear that the appellant association was a true co-operative within the meaning of section 125 of *The Companies Act* which provided:

125. A corporation hereafter incorporated shall be deemed to be operated on a co-operative basis, if provision is made in its letters patent or by-laws,

- (a) that no member have more than one vote;
- (b) that no member, other than a corporation member, vote by proxy; and
- (c) that the surplus funds arising from the business be distributed wholly or in part among the members or amongst members and patrons, in proportion to the volume of business which they have done with or through the corporation.

I am also of the view that Article 8A of the appellant association's by-laws was within the ambit of section 138(1) of *The Companies Act* which provided:

138. (1) A corporation may, subject to its letters patent and memorandum of agreement, enter into any contract or arrangement with its members or patrons for or incidental to dealing with commodities of the kinds the corporation may lawfully deal in and for carrying out the objects and purposes of the corporation, and may advance money to its members or patrons as part payment for commodities delivered or agreed to be delivered to it.

and that the appellant association operated under this section rather than under section 139.

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It is essential in a case such as this that regard should be had to the substance of the transaction under consideration rather than its form: *vide Inland Revenue Commissioners v. Eccentric Club Ltd.*¹. Thus, it is the true nature of the transactions between the members and the appellant association that falls to be determined.

As I see it, it would be contrary to the fact to say that when the members delivered their produce to the association they sold it for the amount received by them on their delivery of it. They did not. The evidence is conclusive to that effect. The members delivered their produce to the association to be marketed by it for them. That was the reason for the association's existence. It had been formed so that the members could co-operate with one another through it in the marketing of their produce, and the fact is that they did market their produce through it. That it was intended that they should do so appears clearly from the provision in Article 11(2)(a) of the by-laws that "Membership in the Association shall be extended to all persons who market agricultural products through the Association". Membership in the association implied of necessity marketing through it. The evidence of Mr. McPhail is to the same effect. Conversely, and notwithstanding the terms used in some of the documents referred to, the association did not purchase its members' produce from them. It was not a trading corporation, in the ordinary sense of the term, engaged in the buying and selling of poultry, eggs, and dairy products for its own profit. If it had been its members would have been entitled to participate in such profit by receiving dividends in their capacity as shareholders. But their rights to an appropriate portion of the association's surplus did not depend on their shareholdings. That had nothing to do with the matter. The fact is that the appellant association was a co-operative marketing association for the marketing of its members' produce, and when it earned a surplus from its business of handling its members' produce for them it did not earn it for itself, but for them. In my opinion, it is clear beyond dispute that the appellant association was not engaged in "an operation of business in carrying out a scheme for profit making" for itself, within the meaning of the test laid down by Lord

¹ [1924] 1 K.B. 390 at 414.

Justice Clerk Macdonald in *Californian Copper Syndicate v. Harris*¹. On that ground alone it would not be subject to tax on its surplus.

Nor can it be said that the members were entitled to their appropriate portion of the appellant's surplus as patronage dividends. Their dealings with the association were in their capacity as members acting co-operatively through it as their marketing agent and not in that of patrons doing business with it. I make this statement without hesitation and notwithstanding the use of the term patronage dividend in article 8A(2) of the by-laws and Exhibits 13, 17, 22 and 23. The term was misdescriptive and its use erroneous.

The fact of the matter is that when the members delivered their produce to the association they did so in order that it should market their produce for them and on their behalf. It was their marketing agency and the means whereby, in their opinion, they would be able, by co-operation with one another through it, to obtain more for their produce than if they sold it to an outside organization. And when the association received the produce from its members and sold it it did so as the members' marketing agent and held the net proceeds from the sale of the produce in that capacity.

Moreover, I find, as I did in the *Horse Co-Operative* case (*supra*), that while it may be conceded that the appellant association had earned the surplus referred to it did not own it. The surplus did not have the quality of income to the appellant that was essential to its being taxable income in its hands, within the meaning of the test used by Mr. Justice Brandeis in delivering the judgment of the Supreme Court of the United States in *Brown v. Helvering*², to which I referred in the *Horse Co-Operative* case (*supra*). The appellant's right to the surplus was not absolute and it was not free to dispose of it or to use or enjoy it. In view of the Article 8A of the by-laws there was only one thing that could be done with it. It had to be credited to the members in the manner specified by the article and the association had no option in the matter. Article 8A is confirmatory of the fact that the appellant did not own the surplus but held it for its members and on their behalf.

¹ (1904) 5 T.C. 159 at 165.

² (1934) 291 U.S. 193.

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In the alternative, as in the *Horse Co-Operative* case (*supra*), if it should be considered that the member's delivery of his produce to the association constituted a sale of it by him to it it is manifest that it was a condition of such sale that the amount paid on the delivery of the produce was only a first payment on account and that the balance was to be paid after the close of the year's operations, as specified in Article 8A. In that view of the transaction between the members and the association the amounts credited to the members pursuant to Article 8A would be part of the cost of the produce to the appellant association and there would not be anything left to constitute profit to it or taxable income in its hands.

Only one other matter requires comment. It was intimated to the appellant association that it might be subject to income tax on its surplus and it set aside a portion of it as a contingency reserve to pay it and paid it under protest on the understanding that if it should be held that it is not subject to tax the amount paid will be refunded to it and the amount so refunded will be credited to the members pursuant to Article 8A of the by-laws in the same manner as the rest of the surplus.

It follows from what I have said that the appeal from the decision of the Income Tax Appeal Board and the appeals from the assessments must be allowed and the assessments set aside. The appellant is also entitled to costs to be taxed in the usual way.

Judgment accordingly.

BETWEEN:

JOSEPH MURRAY RIDDELL PLAINTIFF;

AND

PATRICK HARRISON & COMPANY }
LIMITED } DEFENDANT.

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Sept. 17-21,
24-28,
Oct. 1-2

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Dec. 20

*Patents—The Patent Act, 1935, S. of C. 1935, c. 32, ss. 2(d), 35(1), 47—
Invention defined in claims to be considered—Presumption of validity
of patent—Onus of proof of invalidity not easy to discharge—Unitary
and simple result essential to validity of invention of combination—
Obvious use of elements of combination not proof of obviousness of
combination—Variation in elements of apparatus not a defence to
charge of infringement if substance of invention taken—Ambit of
claims dependent on language used—Onus of proof of infringement on
plaintiff—Claim for invention invalid unless invention described in
specification—Foreign patent not admissible to interpret validity of
claim in Canadian patent.*

The plaintiff sued for infringement of his patent No. 423,375 for "Shaft Sinking Apparatus", called the Riddell Mucker, which had for its object the performance by mechanical means instead of by hand of the "mucking" operation in mine shaft sinking, meaning thereby the removal of the loose rock or other material at the bottom of a mine shaft, called "muck", resulting from a blasting operation done in the course of sinking the shaft. The defendant attacked the claims for lack of novelty and inventiveness and denied infringement.

Held: That the Riddell Mucker was very useful. Its advent marked a great advance in mine shaft sinking, not only in time saved but also in the number of men required.

2. That the Riddell Mucker met with marked commercial success.
3. That what has to be considered in a patent case is the invention as described in the specification and defined in the claims rather than that described in the evidence.
4. That there is a statutory presumption of the validity of a patent under section 47 of *The Patent Act*, that the onus of proving its validity is on the defendant, that where there has been a substantial and useful advance over the prior art, as in the present case, the Court should not make the onus of showing the invalidity of the patent an easy one to discharge and that the defendant has not discharged it.
5. That the fact that the component parts of an apparatus were old is irrelevant in the case of the invention of a combination if the combination itself is new.
6. That it is essential to the validity of a patent for a combination invention that the combination should lead to a unitary and simple result, that the unitary and simple result of the plaintiff's invention was the more expeditious and economic sinking of a mine shaft and that this was not attributable to any of the elements but flowed from the combination.

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7. That prior to the date of the plaintiff's invention no one had conceived or formulated the idea of the combination of elements for use at the bottom of a mine shaft which the plaintiff had devised, described and claimed.
8. That the fact that the use of some of the elements of the combination may have been obvious does not warrant the conclusion that the combination was an obvious workshop improvement. The question is not whether the use of any particular element was obvious but whether the use of the combination was obvious.
9. That if the plaintiff's combination was obvious an apparatus for mechanized mucking would have been developed long before the plaintiff's apparatus was devised, that its success in solving the problem that mucking by hand presented after many attempts to solve it had not succeeded, and in solving the difficult problems involved in devising a mucking machine that could effectively and safely be used at the bottom of a mine shaft is a strong indication that it was not a mere workshop improvement over the prior art and that there was inventiveness in it.
10. That even if the defendant's apparatus did have some advantages over the plaintiff's that fact does not free the defendant from liability for infringement if, apart from such advantages, it took the plaintiff's invention. The basic issue is whether the defendant, "dealing with what he is doing as a matter of substance, is taking the invention claimed by the patent". *Nobel's Explosive Company, Limited v. Anderson* (1894) 11 R.P.C. 115 at 127 applied.
11. That a patent is not to be defeated because subsequent inventions improved the patented article or because of such improvements practically no articles were made in accordance with the specification or because of variations in details that do not affect the substance of the invention.
12. That there was no reason why a witness for the defendant should not be permitted to say that he could not see in the defendant's apparatus certain of the features specified in claims in suit.
13. That there was no real difference between the defendant's apparatus and the plaintiff's, that all the integers of the plaintiff's combination were present in the defendant's apparatus, either exactly or with variations of insignificant importance, that in each case the integers were combined in the same way, that the variations in some of the integers in the defendant's apparatus did not effect any change in its unitary result over that which flowed from the use of the plaintiff's apparatus and that the combination of integers that made up the defendant's apparatus was essentially the same as that which the plaintiff invented.
14. That the plaintiff was entitled to define his invention in the claims in such a way as to protect himself in the enjoyment of the monopoly of his invention, that he was the master of his claims, within the breadth of his invention, and entitled to draft them "in words wide enough to secure the protection desired" and that "the precise ambit of the claim must depend on the language used".
15. That the onus of proving infringement was on the plaintiff and that he has discharged it.
16. That it is a basic rule of patent law that an invention cannot be validly claimed unless it has been described in the specification in the manner required by law and that this requirement was not complied with so far as claim 11, a method or process claim, was concerned.

17. That it is not permissible to interpret the validity of a claim in a Canadian patent by resort to a patent issued in another country where the law and practice may not be the same as in Canada.
18. That the plaintiff's action, except as to claim 11, should be allowed.

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ACTION for infringement of patent.

The trial was held before the President of the Court at Ottawa.

G. E. Maybee, Q.C., and *W. L. Hayhurst* for plaintiff.

Cuthbert A. Scott, Q.C., and *John Ayles* for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (December 20, 1957) delivered the following judgment:

These two actions are for infringement of Letters Patent 423,375, dated October 24, 1944, and issued to the plaintiff, the inventor of the invention covered by it. The second action was brought because of an alleged infringement subsequent to the date of commencement of the first one and the two actions were tried together. The plaintiff seeks damages and an injunction.

The defendant alleges that the Letters Patent are invalid for the reasons set forth in the particulars of objections and it denies infringement. The attacks on the patent, to which I shall refer in greater detail later, are, basically, the usual ones of lack of novelty and inventiveness. There are thus two issues for determination, the first being whether the invention described and claimed was patentable and the second whether the defendant infringed the plaintiff's rights.

In the specification the plaintiff's invention is entitled "Shaft Sinking Apparatus" and is said to relate "to apparatus for mucking while sinking mine shafts and particularly to operator-controlled, power-operated mucking machine for enabling rapid and economical excavation of the blasted material at the bottom of mine shafts during the shaft sinking operations". Its object was to perform the mucking operation in mine shaft sinking by mechanical means instead of by hand. "Mucking" is a technical term meaning, in effect, the removal of the loose rock or other material at the bottom of a mine shaft resulting from a blasting

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operation done in the course of sinking the shaft. Thus, the apparatus was called a mucking machine and was known as the Riddell Mucker.

Before proceeding to consideration of the invention I should set out the state of the prior art. Evidence of this and of the attempts to solve the problem involved was given by the plaintiff who is the Professor of Mining Engineering at the Michigan College of Mining and Technology at Houghton in Michigan. Prior to his appointment he had a long practical experience in mining and mine shaft sinking.

In this case we are concerned with vertical mine shafts of rectangular shape of the type known as hang shafts. As such a shaft is sunk it is necessary to construct a shaft frame. This serves two purposes, namely, one to prevent the walls of the shaft from caving in and the other to enable the shaft sinking operations to be carried on. The frame is built in sections as the shaft is deepened, each section being called a permanent set. The first set is suspended from a bearer set consisting of horizontal members, called bearers, inserted into the rock walls of the shaft. From time to time as the shaft is deepened similar bearers are inserted into the walls. This is what is meant by the term "hang shaft". The permanent sets are hung from the bearer sets which carry the weight of the sets suspended from them. Each permanent set has three compartments, one for use for the various services, such as ladder way, pipe way, electrical power cables and signal wires and other equipment, and the other two for handling the shaft men and the blasted material. The members that divide the set into the three compartments are called dividers. Each permanent set is connected with the one immediately above it by vertical members, known as studdles or posts, their nature and manner of connection depending on whether the shaft frame structure is of steel or of timber. As the frame is constructed it is necessary to use blocking between it and the walls of the shaft to keep the frame in plumb alignment.

Here I should describe the steps taken in a shaft sinking cycle where the mucking was done by hand. There were four operations. Firstly, holes were drilled into the bottom of the shaft according to a planned pattern of drilling, either benching or full cut. Then the holes were charged with explosives and the explosives detonated. This blasting broke

up the rock or other material, the blasted material being described as "muck". Then the mucking operation took place or, before it did so, a permanent set was added to the sets already in place. The materials for the set were lowered through one of the compartments and the set was constructed underground and connected with the one immediately above it. Finally, the mucking operation took place. This was done by hand by the shaft men working at the bottom of the shaft. They shovelled the blasted material into a large muck bucket. When it was filled it was hoisted to the surface by a cable operated from a hoist at the surface and emptied there. If there was a single drum hoist two buckets were used, a full one going up and an empty one down, but a double drum hoist might be used in which case there would be three buckets in the circuit, a full one going up, an empty one at the bottom ready to be filled and an empty one going down. The mucking operation continued until all the blasted material was removed and the bottom made ready for another shaft sinking cycle.

The hand mucking operation was done under difficult and time consuming conditions due to the fact that the shaft men had to shovel through loose rock without having a solid and even bottom from which to shovel and had to work in restricted quarters. As a consequence, the sinking of mine shafts was a slow and expensive operation. The specification states that 40% to 60% of the time spent in the conventional method of sinking mine shafts was used in shovelling the loose blasted rock and hoisting it to the surface. In the statement of defence it is alleged that this statement is misleading and inaccurate but Professor Riddell confirmed its accuracy. Moreover, it is supported by Peele's Mining Engineers Handbook, Third Edition, 1941, a treatise generally accepted as a reference work by mining engineers. I am satisfied that the statement is true and I so find.

Prior to the invention several attempts had been made to devise mechanical means to facilitate the removal of blasted material from the bottom of a mine shaft. Professor Riddell gave particulars of these attempts in a compilation filed as Exhibit P-16. These included a device, called a sackborer, for excavating soft or unconsolidated material, which is not now in use, an orange-peel excavating bucket operated from a crane on the surface for use in a drop shaft,

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with which we are not here concerned, and a device for use when the drilling was done by benching instead of by full cut and the muck was thrown up in a slope against one wall so that it could be scraped or rolled into a muck bucket reclining on the slope. Then he described what was called the Butte method of shaft-sinking. This consisted of hand mucking into loading trays or pans, hoisting them and dumping their contents into a car mounted on a cage. This required a specially designed cage. Later, there was a modification of the Butte method whereby the loaded trays or pans were dumped into a skip which was hoisted to the surface. But while the Butte method eliminated some of the hard work of hand mucking there was a substantial amount of hand mucking still to be done. There was also another method whereby a mechanically operated scraper was used to gather up the muck, go up a slide and dump the contents into a muck bucket. In addition, there were several mechanisms in the forms of shovels for excavating horizontal openings underground and loading the contents into a car but they were not used in vertical shafts, except in the case of the Butler Shovel which could be used in a large shaft and the Eimco Rocker Shovel which could remove some of the broken rock. Likewise, clam shell and orange-peel buckets were not successful in vertical shafts. Thus, while some progress had been made in solving the problems of hand mucking it was not until the Riddell Mucker was devised that mucking was really mechanized. I should add that there are cases where mucking is still done by hand and I may also say that the Butte method and the scraper method have gone into the discard.

Professor Riddell then gave an account of how he came to make his invention. In the summer of 1941 he was engaged in sinking two mine shafts at Barberton in Ohio. He was then the manager of the mining division of a company that had the contract for sinking the shafts. He had recently gained knowledge of the operation of a single-line clam shell excavating bucket, commonly called simply a clam shell, and conceived the idea that it might be used for mucking. He made an arrangement to have one sent to him for trial purposes and experimented with it by lowering it into the mine shaft and operating it from one of the drums of the main hoist at the surface. He found that there was sufficient room at the bottom of the shaft to swing the clam

shell over the muck bucket and empty it but it was not possible when it was being opened to control the discharge of its load into the muck bucket. The experiment was not successful. Professor Riddell then sent for a two-line clam shell bucket, one line being a holding line to enable the clam shell to be raised or lowered and the other a digging line enabling it to be closed or opened. This was lowered into the shaft and operated from the main hoist at the surface in the same way as the previous one. Its use was found satisfactory for it was possible to control the closing and opening of the clam shell. This was the first stage in the experiment.

Then Professor Riddell considered that the clam shell might be operated from a track frame with a carriage on it on which hoists to operate the clam shell and a propelling motor to move the carriage could be mounted. Drawings for such a structure were made on October 29, 1941, and an apparatus in accordance with them was built. The first apparatus had a one-wheel drive for the moving of the carriage but it was found that this was not satisfactory and revised drawings to provide for a two-wheel drive were made on November 26, 1941. The apparatus according to these drawings was assembled on the surface by mounting it on two wooden horses, like trestles, about twenty feet high and the clam shell was suspended from the carriage by cables connected with the two hoists on it. A quantity of muck was dumped on the ground and the experiment of how it could be disposed of proceeded. The structure was left there for about two and a half months so that the men who were to work with it could be instructed in its use. This might be called the second stage in the experiment.

Professor Riddell then set out some of the problems that had faced him. He was anxious to design an apparatus that would be safe and there was the problem of selecting the proper equipment. He realized that it was possible to make a combination of blasting set and track frame by sacrificing certain features of a blasting set. He defined a blasting set as a structure that is hung beneath the latest placed permanent set in a shaft with a three-fold purpose, namely, to absorb part of the shock of a blasting operation, to accord a partial shielding of the men working at the bottom of the shaft from material falling from above, and to serve as a

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staging from which to work when constructing an additional permanent set. Some of the features of the blasting set were incorporated into his apparatus by placing the track frame on the peripheral members of a blasting set, or by putting them under it, but other features, namely, the partitioning members, had to be eliminated for it was necessary to keep the track frame open for proper operation of the clam shell. The elimination of the partitioning members ordinarily in a blasting set made it necessary to put sufficient strength into the peripheral members to withstand the impact of the blasting. It was also necessary to take steps to protect the carriage. Consequently, it had to be strong and rigid. And it was conceived that the bottom of the carriage could be protected by hoisting the clam shell to its highest position and locking or chaining it in place immediately below it. It was, of course, also necessary to make the dimensions of the carriage such as to permit the free passage of the muck buckets through the compartments designed for them. There were also other problems, such as designing something that could be easily moved as desired, and perforating the bottom of the carriage so that the operators, two at first and later only one, could see what was happening at the bottom of the shaft. And consideration had to be given to matters of economy of cost and maintenance.

When the time came for taking the apparatus underground the superintendent who was working under Professor Riddell declared that as soon as it was put underground he would leave the work because he considered it an unsafe piece of mechanism and two of the miners made a similar declaration. There were also some other difficulties with the other men but Professor Riddell was able to answer them saying that he would live on the job himself for 48 hours and that if it did not perform safely or efficiently he would have it taken out. When the apparatus was taken underground on February 21, 1942, the superintendent and the two miners left the job. About half the working force was neutral about the device and the others were opposed to it. But after 48 hours the men were all in favor of it. Professor Riddell then filed his application for a United States Patent on July 30, 1942, and his application for the Canadian one on June 3, 1943, and the Canadian patent was issued, as already stated, on October 24, 1944.

The evidence is conclusive that the Riddell Mucker was very useful. Its advent marked a great advance in mine shaft sinking, not only in time saved but also in reduction of the number of men required. In the specification it was stated, "As a result of the improved shaft sinking arrangements, there is a time saving of 25% to 75% of the time involved in mucking the loose blasted rock as compared with usual hand methods, and this may be accomplished with 50% to 75% less labor". It was alleged in the statement of defence that this statement was misleading and inaccurate but Professor Riddell stated that it was correct and his evidence on this point was not contradicted. It is substantiated by what happened at Barberton. Professor Riddell had introduced his mucking machine into the No. 2 shaft there at about the midpoint in sinking it. At the same time the No. 1 shaft was being sunk with hand mucking. A progress record for the sinking of the two shafts was kept and the details are set out in a paper filed as part of Exhibit P-18. It is not necessary to set out the details of the record, it being sufficient to point out that the advance per day in sinking No. 2 shaft after the Riddell Mucker was introduced was 8.33 feet, whereas the corresponding advance in sinking No. 1 shaft by hand mucking was 6.80 feet. And it is also noteworthy that, aside from the time saved in mucking, there was also an appreciable decrease in the time of the other tasks, such as drilling, loading and smoke delay, and steel shaft installation. In his paper Professor Riddell said that it appeared reasonable to conclude that the greater part of these time savings were attributable to the conservation of the physical reserve of the underground crew by the elimination of hand mucking. Later, in a study filed as Exhibit 39, Professor Riddell estimated that the saving in cost as between mechanized mucking by his apparatus and hand mucking was between 57 and 61 per cent or, to put it in dollars, between \$31.45 and \$37.92 per foot. I find that the statement in the specification to which I have referred is substantiated.

There was also the evidence of Mr. H. Gustafson relating to the use of the Riddell Mucker in sinking a shaft at Iron-ton in Michigan, in 1946. Mr. Gustafson had been the engineer in charge of the operation. The shaft had been partly sunk by hand mucking into a loading tray which was hoisted into a skip, which I have referred to previously

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as the Butte shaft sinking method. Then it was decided to deepen the shaft and use the Riddell Mucker. Detailed records were kept of the entire operation, showing the times for drilling, charging, smoke delay, other delays, mucking, installing steel and total time both in hours and in man hours. This record was filed as Exhibit P-27. It was possible from this record to compare the results of the hand mucking with those of the Riddell Mucker in the same shaft and under the same conditions. The comparative results were filed as Exhibit 28. As in the case of the record at Barberton it is not necessary to set out the details of the comparison. The increase in the rate of progress of the mucking by the Riddell Mucker over the hand mucking was 24.57% and the decrease in shaft labor man hours was 50 to 52%. The overall increase in the rate of progress for all operations was 13.67% and the decrease in shaft labor in man hours 43 to 25%. It should, perhaps, be stated that at Ironton the Riddell Mucker was not in precisely the same form as at Barberton. There was a difference in the construction of the car or carriage. The base or platform was not underslung below the rails but was above them and the carriage was more readily removable. Otherwise, there was no difference, the combination being essentially the same.

Moreover, the evidence establishes that in addition to being useful, and no doubt because of its usefulness, the Riddell Mucker has met with marked commercial success. It has been widely licensed in the United States under the plaintiff's United States patent and in Canada under its Canadian one. A list of licensees was filed as Exhibit P-24 and a graph showing a steady increase in the number of licenses as Exhibit P-25. In addition, it has been widely used in other countries where there is no patent coverage, namely, Mexico, Chile, Cuba, Belgium, Yugoslavia, Spain, Australia and South Africa. The comment in the professional and trade journals, compiled and filed as Exhibit P-18, has been laudatory of the machine and method. For example, in the February, 1943, edition of Mining and Metallurgy, the official organ of the American Institute of Mining and Metallurgical Engineers, an article by J. A. Carpenter spoke of the machine as giving excellent promise. Then in the February, 1951, issue of the Engineering and Mining Journal A. H. Hubbell, in an article in the nature

of an annual review, said: "The Riddell shaft mucker continues to be the most popular means of mucking vertical shafts mechanically. It has served in sinking more than 60 shafts, under a great variety of conditions, in 13 states and five foreign countries. Its use has minimized unit shaft-sinking costs and increased the sinking rate". And in the February, 1953, issue of the same journal the same author said: "Mucking, always mean when done by hand, is at its meanest in shaft bottoms. Mechanization of shaft mucking is one of the outstanding achievements in mining. The number of devices for this purpose have multiplied". And the author went on to say: "for mucking vertical shafts the Riddell shaft mucker continues to hold a substantial lead. It has seen service in practically all the important mining districts in the U.S. New Mexico has had 12 installations, Canada 8, Mexico, Europe, Africa and South America 10, collectively". And in the mid-March, 1955, issue of the Engineering and Mining Journal, an article by Roger Pierce, under the heading "Shaft-sinking Equipment" stated: "Riddell's patented mucker for vertical shafts is an accepted standard. This unit . . . has eliminated much of the labor involved in shaft mucking". While these extracts from journals are not proof of the facts stated I allowed evidence of them to be given as indications of the reaction of the profession to the machine and its work and the general acceptance of it. Moreover, I have no doubt that the statements in the articles could have been proved. It should, however, be pointed out that the commercial success of the plaintiff's invention was achieved by the Riddell Mucker in forms that were variations of the apparatus specifically described in the specification and illustrated by the accompanying drawings. I shall deal with this matter in greater detail later.

After the plaintiff had made his invention there were several other attempts to devise satisfactory mucking machines. Several of these were tried out and later discarded in favor of the Riddell Mucker. But there were some other machines that were successful, such as the Bucyrus Erie Hydromucker and the Cryderman Shaft Mucker, so that it cannot be said that the Riddell Mucker occupies the whole field. Moreover, many of the large Canadian mines do not use it. But, while that is so, Professor Riddell made the

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statement that up to the time of the action his apparatus had handled more cubic yards of material in Canada than all the other mechanical muckers combined. I see no reason for not accepting his statement.

In the course of his evidence Professor Riddell described the manner in which his apparatus was used. During the blasting operation the frame with the carriage on it was connected with the lowermost permanent set with the clam shell hoisted up and locked or chained immediately under the carriage in the manner already described. In order to accommodate the apparatus, when it was in that position, it was necessary either to take out the dividers in the permanent set above it or to leave them out until after the next lowest permanent set was put in place. After the blasting had been done and the smoke fumes had been cleared away care was taken to clear all loose rocks from the timbers so that they would not fall on the shaft men when they were working. When that had been done the frame was lowered to its desired position by the various devices used for the purpose. Then the necessary material for the construction of another permanent set was brought down and it was built and attached to the one above it, the dividers in it being either put in or put back if they had been previously removed. When the permanent set had been put in place, usually without the dividers, the apparatus was then lowered and temporarily attached to the bottom of it and preparations were made for the mucking operation. The carriage was manned, the necessary connections were made to the motor and the hoists on the carriage, the clam shell was unlatched and lowered to the bottom, an empty muck bucket was also lowered, the shaft men went down to the bottom and the mucking began. The operator on the carriage controlled the clam shell. When it had scooped up a load it was hoisted and moved so that it was above the muck bucket. It was then tripped open by one of the shaft men. This operation was repeated until the muck bucket was full. It was then connected with the hoist cable which had been disconnected from an empty bucket and hoisted up to the surface and emptied there. The operator of the carriage could see what was happening below him and by moving the carriage as desired could lower the clam shell as required. There were also tag lines on the clam shell by which the shaft men could pull the clam shell over near the corners

and sides. When all the muck was removed the bottom of the shaft was again ready for another drilling and blasting.

While Professor Riddell gave an account of how he came to make his invention and gave a general description of the manner of its operation it must constantly be kept in mind that what has to be considered in a patent case is the invention as described in the specification and defined in the claims rather than that described in the evidence. I, therefore, now turn to the specification. It is, I think, desirable in this case to refer in detail to the description of the invention substantially as it appears in the specification. By reason of the fact that I do not add the figures in the drawings to these reasons I have omitted the identifying numerals that appear in the specification. I have already referred to the fact that in it the invention is entitled "Shaft Sinking Apparatus" and that it "related to apparatus for mucking while sinking mine shafts and particularly to operator-controlled, power-operated mucking machine for enabling rapid and economical excavation of the blasted material at the bottom of mine shafts during the shaft sinking operations". It is also stated that it is an object of the invention to provide improved shaft sinking equipment capable of substantial decreases in the time and labor costs of shaft sinking and the provision of a simplified equipment which may easily be built at low cost from readily available materials. The invention with which we are concerned in this action is an apparatus for use down in a rectangular mine shaft and is illustrated in Figures 2, 3, 4 and 5 of the drawings accompanying the specification. Its construction and operation are clearly and fully described. It is a combination of parts enumerated briefly as follows, namely, a temporary set forming a trackway, a car serving as a platform on wheels running on the tracks, a propulsion motor on the car for moving it from one end of the shaft to the other, hoist mechanism on the platform for operating an excavating bucket suspended from it, and an excavating bucket for picking up the blasted material at the bottom of the shaft and dumping it into a muck bucket.

After describing how the permanent sets are fastened to each other by short vertical studdles, which are fastened to the sets by riveting, welding or bolting to splice bars, and sets, the method of fastening being dependent upon the

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material used and the apparatus available and after describing the four steps in a shaft sinking cycle where the mucking is done by hand the specification states that the removal of the blasted rock is accomplished by the invented mucking machine and then proceeds to describe the composition and operation of the invention. This, of course, involves a description of each element of the combination and how it cooperates with the other elements to accomplish the unitary result of the combination. Firstly, a temporary set is positioned below the lowest permanent set. This may be composed of standard railroad rail sections. The side frames and end frames are fastened together in any suitable manner as, for example, by welding or bolting and may be stiffened by channel irons if desired. Shapes other than railroad rail sections may be utilized for the purpose but rail shapes may usually be obtained locally at low cost and their use is recommended. Then the specification describes the manner in which the temporary set is operated. It is arranged to be supported from the permanent set above it, by temporary studdles at each of the corners of the temporary sets. The studdles are conveniently made in angle iron shapes and are provided with holes at the upper end for temporarily bolting them to the splice bars. In addition, there are hoisting devices which may be differential chain blocks positioned at the corners or ends of the temporary set. These hoists are connected at their upper ends to the permanent studdles or to the permanent sets and at the lower end to the temporary set or temporary studdles. When it is desired to lower the temporary set the temporary bolts between the temporary studdles and the splice bars are removed and the hoists are lowered so as to provide space below the lowermost permanent set for another permanent set, which thereupon becomes the lowermost one. Thereupon, the temporary set is again supported by temporarily bolting the temporary studdles and the splice bars. If desired, the main hoisting cable may be attached temporarily to the set to allow lowering to a new level.

There are other particulars regarding the temporary set. It may, if desired, be made slightly smaller than the permanent set so as to be capable of being lifted in the level position upwardly within the confines of the permanent set. If desired, also, the temporary set may be suspended at the corners by cables or chains attached to the permanent sets

above or the cables may be run to the surface. Furthermore, the corner cables may operate as a hoist for withdrawing the temporary set to a considerable elevation above the bottom, as during severe blasting, or for removal at the end of the operations and for lowering during working operations. It is obvious, of course, that if the temporary set is to be lifted within the confines of the temporary sets the dividers in them between the compartments would have to be removed or, in the alternative, not put in until later.

Secondly, it is stated that the side members of the temporary set form a trackway upon which there travels a car on wheels. The car comprises a plurality of cross-frame members and hangers at each end of them extending upwardly around the outside of the side frame members of the temporary set. The upper ends of the hangers are bent and receive angle brackets which are bolted in place with another angle bracket. The angle brackets and the hangers are provided with bearings through which an axle shaft extends. Upon the end of the shaft there are wheels which are spaced so as to roll along the side frame members. At the opposite side of the car there are additional hangers similar to the ones referred to and upon them there are mounted wheels which are rotatable upon stub axles. The hangers are stiffened by brace rods. The manner of construction described is illustrated by Figures 3, 4 and 5. Here I might interject that a drawing of the car in perspective was shown on page 3 of Exhibit P-17. It is apparent from the figures and the drawing that the platform of the car is underslung below the side members.

Thirdly, there is a motor on the car. Upon one end of the axle shaft there is a chain sprocket upon which the chain operates. It also runs on the drive sprocket of the motor, which may be either a reversible air motor or a reversible electric motor. There is a convenient operator control so that the operator on the car may control the motor so that the car may remain at rest or be propelled to the right or to the left as desired. It is apparent that the propulsion is from one end of the shaft to the other, that is to say, in the direction of its long axis for that is the only direction which it can go.

Fourthly, there are hoisting machines mounted upon the central portion of the car. These may be of either the air

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driven or electrical motor driven type and are provided with operator controls. The hoisting drums provide winding spaces for hoisting cables which serve as suspension and operating cables for the clam shell excavating bucket. If desired the controls may be brought to a central control portion by suitable mechanical, electrical or pneumatic connections, and the central control position may be on the car, above the car on a perch fastened to the permanent framing of the shaft, or below the car in a position to be operated by a workman at the mucking level.

Finally, there is a description of the clam shell bucket and its operation. It is preferably mounded so that it is suspended along approximately the central line of the rectangular shaft and it is of sufficient size that when it is open it has a reach of between 50% and 75% of the width of the rectangular excavation. It initially excavates the material along the central portion of the shaft. For cleaning the corners and sides an operator at the bottom of the shaft "worries" the shovel against the side walls and corners so that practically no hand cleaning is needed. During the excavating the shovel is lowered open and is then closed, hoisted and the load lifted to an elevation above the muck bucket. The car is then moved sideways until the clam shell is over the muck bucket and the load is dumped. During the time the muck bucket is resting on the rock heap at the bottom the hoist cable by which it is hoisted to the surface may be looped out of the way.

The specification then makes the statement that many obvious variations will be apparent to those skilled in the art and are intended to be within the purview of the invention therein illustrated, described and claimed. I shall refer to these variations later when I come to consideration of the issue of infringement.

The specification ends with 11 claims, all of which are in suit except claims 8 and 9 which relate to circular shafts. The claims in suit read as follows:

1. An apparatus for sinking mine shafts having permanent sets positioned at fixed intervals vertically along the walls of the shaft, from near the surface to a position a short distance above the bottom of the shaft where excavation is done, comprising a peripheral frame having substantially the same shape as the cross-sectional shape of the shaft being sunk, said frame having a load carrying rail spaced outwardly a short distance from the mine shaft wall, a platform extending across the mine shaft, said

platform having a lesser cross-sectional area than the frame so as to present an unobstructed space alongside the platform for hoisting excavated material, wheels on the platform positioned so as to bear upon the rail to be supported thereby, releasable support members extending from the permanent sets of the mine shaft to the peripheral frame for supporting it, a power hoist positioned on the platform, a power operated excavating bucket suspended from the hoist and operated thereby, and power means connected to the platform wheels for moving the platform on the rail within the confines of the mine shaft excavation.

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2. The combination set forth in claim 1 further characterized in that the power operated excavating bucket is a clam shell bucket of a size such that when open it extends across a major part of the mine shaft cross-sectional area.

3. An apparatus for sinking mine shaft of rectangular cross-section, having permanent sets spaced vertically in the shaft excavation and connected together by permanent studdles, comprising a temporary set having a peripheral contour like the permanent sets of the mine shaft and having load-bearing rail surfaces spaced along the opposite sides thereof, disconnectable temporary means for suspending the temporary set in a substantially horizontal plane below the lowermost permanent set, a platform having a length slightly less than the distance across the rectangular mine shaft from one load bearing rail surface to the other, and a width substantially less than the other cross-sectional dimension of the mine shaft, wheels on the platform positioned so as to roll upon said rails, reversible operator controlled power means mounted on the platform and connected to wheels thereof for moving the platform sidewise along the rails within the confines of the mine shaft and operator controlled power operated excavating shovel means suspended from the platform.

4. The combination set forth in claim 1 further characterized in including hoist means connected to the permanent set of the mine shaft and the peripheral frame for lowering the frame as the shaft is excavated and temporary means connecting the permanent set and peripheral frame for stiffly supporting the peripheral frame during excavating operations.

5. The apparatus set forth in claim 4 further characterized in that the power operated shovel comprises reversible operator controlled air-motored clam shell excavating bucket.

6. The apparatus set forth in claim 4 further characterized in that the excavating shovel comprises a clam shell bucket operable along a plane extending across the rectangular mine shaft from one rail surface to the other.

7. The apparatus set forth in claim 4 further characterized in that the excavating shovel comprises clam shell bucket operable along a plane extending across the rectangular mine shaft from one rail surface to the other, and the clam shell bucket is suspended substantially midway between the rails and when opened has a dimension more than 50% of the distance across the mine shaft from one rail to the other.

10. An apparatus for sinking mine shafts of rectangular cross-section, having permanent sets spaced vertically in the shaft excavation and connected together by permanent studdles comprising a temporary set having a peripheral contour substantially like the permanent sets of the mine shaft and having load-bearing rail surfaces spaced along the opposite sides thereof, disconnectable temporary means for suspending the temporary set in a substantially horizontal plane below the lowermost permanent set,

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a platform having a length slightly less than the distance across the rectangular mine shaft from one load bearing rail surface to the other, and a width substantially less than the other cross-sectional dimension of the mine shaft, wheels on the platform positioned so as to roll upon said rails, reversible operator controlled power means for moving the platform side-wise along the rails within the confines of the mine shaft and operator controlled power operated excavating shovel means suspended from the platform.

11. A method of sinking a mine shaft, which comprises positioning permanent sets at fixed intervals vertically along the walls of the shaft to a short distance above the bottom of the shaft, suspending a temporary set from the lowest permanent set, supporting a movable carriage on said temporary set and arranging a power operated excavator on said carriage, and operating said excavator to remove loose material from the shaft bottom.

I find no difficulty in determining the issue of validity of the patent in favor of the plaintiff. There is, in the first place, a statutory presumption of its validity under section 47 of *The Patent Act*, 1935, S. of C. 1935, chapter 32, from which it follows that the onus of proving its invalidity is on the defendant: *vide The King v. Uhlemann Optical Co.*¹. And in *O'Cedar of Canada Ltd. v. Mallory Hardware Products Ltd.*² I expressed the opinion that, in view of this statutory presumption, where there has been a substantial and useful advance over the prior art, as is the case here, the Court should not make the onus of showing the invalidity of the patent an easy one to discharge. In my opinion, the defendant has not discharged it in the present case.

It was alleged, in effect, on behalf of the defendant that the plaintiff's apparatus was not patentable, that its component parts were old, that their use in mine shaft sinking practice was well known and obvious, that such use required merely the exercise of mechanical skill and that, consequently, there was no invention.

There was complete agreement on the part of the witnesses that certain materials and devices used in the construction of the apparatus were well known before the invention. It is obvious, of course, that in sinking a mine shaft certain operations remained the same whether the mucking operation was mechanized or done by hand. Thus, there was nothing new about such structures as permanent sets, blasting sets or temporary sets or such appliances as studdles, splice bars, channel irons, cables, chains, or other

¹ [1950] Ex. C.R. 142 at 161.

² [1956] Ex. C.R. 299 at 318.

means connecting permanent sets or lowering or suspending temporary sets, or such things and devices as muck buckets, hoisting cables and single or double drum hoists. Nor in connection with the plaintiff's apparatus was there anything new about such things as railway rails, a car or carriage running on wheels, a motor, a chain and sprocket, hoists, a single or double line clam shell excavating bucket and its suspension from a carriage or the means of operating it. Indeed, Professor Corlett went so far as to say that all the elements in the apparatus, such as railroad rails, wheels, axles, platforms, propulsion motors, hoists, clam shells, muck buckets, guide ropes and the like were old. There was one exception to this. The carriage element had to be specifically designed for the reason that mine shafts were not standardized and it was rare to find two mine shafts with the same horizontal configuration. Thus, the carriage had to be designed to suit the requirements of the shaft: there had to be sufficient width between the rails to allow a large muck bucket to pass between them and the other dimension had to be such as to clear the compartments.

But the fact that the component parts of the plaintiff's apparatus were old is irrelevant in the present case for his invention is a combination. And it is established, as stated in *The King v. American Optical Co.*¹ that it is not necessary to the validity of a combination invention that its elements should be new. Indeed, all of them may be old. If the combination is the invention, then it is immaterial that the elements are old if the combination itself is new. There is support for this statement in *British United Shoe Machinery Company Ltd. v. A. Fussell & Sons Ltd.*²; *Baldwin International Radio Co. of Canada Ltd. v. Western Electric Co. Inc. et al.*³; and Terrell on Patents, 8th Edition, pages 79-81. These cases also warrant the statement in the *American Optical Company* case (*supra*) in which, at page 355, I set out the test of what constitutes a patentable combination invention in the following terms:

It is essential to the validity of a patent for a combination invention, apart from considerations of novelty and inventive ingenuity, that the combination should lead to a unitary result rather than a succession of results, that such result should be different from the sum of the results of

¹ [1950] Ex. C.R. 344 at 355.

² (1908) 25 R.P.C. 631 at 656, 657.

³ [1934] S.C.R. 94 at 104.

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the elements and that it should be simple and not complex. The elements may interact with one another provided they combine for a unitary and simple result that is not attributable to any of the elements but flows from the combination itself and would not be possible without it.

And, according to Lord Tomlin in *British Celanese, Ltd. v. Courtaulds, Ltd.*¹, if a combination of old integers is to be patentable their working inter-relation must be such as to produce a new or improved result. In my opinion, the plaintiff's apparatus meets this test. The unitary and simple result of the combination was the more expeditious and more economical sinking of a mine shaft, as already explained. This was not attributable to any of the elements but flowed from the combination. And this unitary and simple result was a new and improved one.

And I am satisfied that the combination had all the necessary attributes of patentability. The evidence that it was new is conclusive. In the particulars of objections it was alleged, *inter alia*, that if there was any invention in the subject matter of the patent it was not conceived by the plaintiff but by one A. C. Johnson and also that the patent was invalid because the apparatus therein described and claimed was not novel but was within the common knowledge of the art and was previously commonly used, having been disclosed in the prior publication of certain specified patents and in the prior knowledge of certain specified persons. These allegations are unfounded. There was no basis for saying that the invention was conceived by A. C. Johnson. It was not. Moreover, the defence of anticipation by prior publication was abandoned, and properly so. And there was no evidence of anticipation by prior use. Evidence of certain patents was adduced on behalf of the defendant as evidence of the prior art but I have no hesitation in finding that such evidence really had no bearing on the issues under consideration in this case and I see no reason for making any reference to any of the patents filed on behalf of the defendant. In my opinion, the novelty of the invention is beyond dispute. No one had previously conceived or formulated the idea of the combination of elements for use at the bottom of a mine shaft which the plaintiff devised and has described and claimed.

¹ (1935) 52 R.P.C. 171 at 193.

Nor is there any need to repeat what I have said about the usefulness of the plaintiff's apparatus and its commercial success. The attribute of utility was abundantly present.

And I reject the suggestion that the invention was an obvious workshop improvement because the use of some of the elements of the combination may have been obvious. Such a conclusion is unwarranted. The question is not whether the use of any particular element was obvious but whether the use of the combination was obvious. The danger involved in determining the obviousness or otherwise of a combination by ascertaining whether the use of each of the elements was obvious was pointed out by Lord Justice Greene, in delivering the judgment of the Court of Appeal in *Albert Wood and Amcolite v. Gowshall Ltd.*¹ There he said, at page 40:

The dissection of a combination into its constituent elements and the examination of each element in order to see whether its use was obvious or not is, in our view, a method which ought to be applied with great caution since it tends to obscure the fact that the invention claimed is the combination. Moreover, this method also tends to obscure the facts that the conception of the combination normally governs and precedes the selection of the elements of which it is composed and that the obviousness or otherwise of each act of selection must in general be examined in the light of this consideration. The real and ultimate question is: Is the combination obvious or not?

I do not see how it could reasonably be contended that the plaintiff's combination was obvious. If it had been, an apparatus for mechanized mucking would have been developed long before the plaintiff's apparatus was devised, for there had been many attempts to solve the problem that mucking by hand presented and they had not succeeded. The fact that the advent of the Riddell Mucker was hailed as a remarkable achievement is a strong indication that it was not a mere workshop improvement over the prior art. The problems involved in devising a mucking machine that could effectively and safely be used at the bottom of a mine shaft were difficult ones. Quite apart from the statutory presumption in favor of the validity of the plaintiff's patent, I have no hesitation in finding that there was inventiveness in the plaintiff's concept that the elements that he used

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¹ (1937) 54 R.P.C. 37.

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could be combined for use down in a mine shaft in such a way as to accomplish the mechanization of mucking and his effective and safe embodiment of it.

Thus, all the necessary attributes of patentability were present in the plaintiff's apparatus and it was fully described and clearly defined. I find that claims 1, 2, 3, 4, 5, 6, 7 and 10 are valid. I shall deal with claim 11 later.

Thus far I have not found any difficulty in this case. Indeed, after hearing the evidence and the arguments of counsel, I am of the opinion that the only real issue is that of infringement. This turns on whether the apparatus used by the defendant in sinking a mine shaft for the Lyndhurst Mining Company Limited north of Noranda in Quebec infringed the plaintiff's patent. If it did, then it is agreed that the defendant also infringed at other places and that the quantum of damages should be determined on a reference.

Evidence relating to the infringement was given for the plaintiff by Professor H. R. Rice, head of the Department of Mining Engineering at the University of Toronto, and Mr. Patrick Harrison, the defendant's president, on his examination for discovery, and for the defendant by Mr. George Smith, the defendant's chief engineer, and Professor A. V. Corlett, head of the Department of Mining Engineering at Queen's University.

It is desirable at the outset to describe the defendant's apparatus as used at Lyndhurst. There was an inspection of it by Professor Rice on May 19, 1955. He made the necessary measurements and notes and then did a pencil drawing which was filed as Exhibit P-30, of which a photostatic copy was shown on Page 7 of Exhibit P-17. This shows the important features. The apparatus was being used in the lower portion of a shaft measuring 7' by 17'8". The shaft frame was of timber. The drawing shows a frame construction of several sections, the upper ones representing the permanent sets of a three-compartment shaft and the lowermost one the defendant's apparatus. This was a frame construction consisting of a rectangular timber frame at the bottom, vertical posts at the four corners and diagonal bracing made of iron or steel pipe, and a rectangular timber frame on top of the posts, the connections being by mild steel plates. On page 7 of Exhibit P-17 the whole frame is

designated as "blasting set" but this notation together with other notations was put on the drawing by Mr. Hayhurst of counsel for the plaintiff when he was examining Mr. Harrison for discovery. But Mr. Smith spoke of the lower rectangular frame as the blasting set. I shall refer to the confusion in the use of the term "blasting set" later. On the lower frame there was a trackway of two rails of 6" wide flange structural steel which butted against the cross timber of the rectangular frame and was connected to it with plates and angle irons and U bolts, thus keeping the rails fixed and apart. On the trackway thus formed there was a carriage on wheels running on the rails and on the platform of the carriage there was a single drum hoist and also a reversible air motor. Below the carriage there was a clam shell excavating bucket suspended from the hoist on the carriage and operated by it. The clam shell was suspended substantially midway between the rails and operated across the shorter dimension of the shaft in the same way as shown on Figure 5 of the patent drawings and opened to a width of 78 inches as compared with a width of 52 inches between the rails. There was an air cylinder attached to the clam shell and an air line operated from above. The whole apparatus was suspended by chain blocks from a permanent set above it and carried by safety cables and safety chains and could be lowered by tightening the chain blocks and removing the safety chains. Thus far the description of the defendant's apparatus has been a general one. It indicates the presence of all the elements comprised in the plaintiff's invention with variations in some of them.

But Professor Rice went further than this. In reply to questions from counsel for the plaintiff he found in the defendant's apparatus all the features of the plaintiff's invention as defined in claim 1. I summarize this portion of his evidence. The defendant's apparatus was an apparatus for sinking mine shafts having permanent sets positioned at fixed intervals vertically along the walls of the shaft, from near the surface to a position a short distance above the bottom of the shaft where excavation was done. The apparatus comprised the following elements. It had a peripheral frame having substantially the same shape as the cross-sectional shape of the shaft being sunk. As a matter of fact Professor Rice said that, in plan, it was co-incident with

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the outside members of the permanent sets. The frame had a load carrying rail spaced outwardly a short distance from the mine shaft wall. Professor Rice put the distance at 18 inches from the outside of the frame to the inside of the rail. This did not include what is called the overbreak between the outside of the frame and the actual rock wall of the shaft. There was a platform extending across the mine shaft. The platform had a lesser cross-sectional area than the frame so as to present an unobstructed space alongside the platform for hoisting excavated material. The measurements taken by Professor Rice bore out this statement. The platform measured 46" by 51" and the frame 7' × 17'8" so that there was room for hoisting the muck bucket into the compartment intended for the purpose. There were wheels on the platform positioned so as to bear upon the rail to be supported thereby, two wheels on each side. The safety chains and safety cables already referred to constituted releasable support members extending from the permanent sets of the mine shaft to the peripheral frame for supporting it. A power hoist was positioned on the platform and a power operated excavating bucket was suspended from the hoist and operated thereby and there were power means connected to the platform wheels for moving the platform on the rail within the confines of the mine shaft excavation. Professor Rice stated that on the platform there was a single drum air hoist, and also a reversible air motor connected to an axle of the carriage by sprockets and a roller chain, together with the necessary controls, and that the clam shell was raised and lowered by the hoist.

This evidence was substantially confirmed by Mr. Harrison on his examination for discovery so that I need not refer to it further. Unless this evidence is shown to be unfounded it substantiates the plaintiff's contention that the defendant's apparatus as used at Lyndhurst infringed the plaintiff's invention as defined in claim 1. And, in that event it would not be necessary to consider the other claims.

While Professor Rice was not asked any questions about the other claims there can, I think, be no doubt that if he had been, he would have found in the defendant's apparatus all the features of the plaintiff's invention as defined in claims 3 and 10 and it would have followed that the features included in claims 2, 4, 5, 6 and 7 would also have been found.

The evidence of Professor Rice was not disturbed to any extent by Mr. Smith. He described the defendant's apparatus from a practical point of view. The defendant first used its mechanical mucker at Malartic Gold Fields in June, 1954. It did so as the result of knowledge gained by one of its suppliers who had made a tour of the mines in South Africa. At the time, Mr. Smith knew of the Riddell Mucker and gave as his reason for not acquiring it that from all the reports they had heard of the Riddell Mucker it was not putting up as great a footage as the defendant was getting by hand mucking. When the apparatus was first used at Malartic it was not quite satisfactory. There was trouble with the air-actuated clam shell. The power of the air cylinder was too great for the members of the clam shell and they gave way. The defendant then cut down the power of the air cylinder and strengthened the members of the clam shell. Otherwise, the apparatus used at Malartic was used at Lyndhurst. Mr. Smith then gave his evidence about it. He stated that the defendant took a standard blasting set and placed a trackway on it. I shall comment on this statement later. The rails were said to be ordinary railway rails. Mounted on the tracks was a carriage—a cut-down air trammer complete with air motor drive through a chain and sprocket. The other features consisted of a superstructure built up over the frame of the air trammer embodying a canopy for the protection of the operator, guide shoes that would run on the permanent guides of any shaft, means of attaching the main hoist cable to the carriage to move it up or down in the shaft, a single-drum air hoist mounted on the carriage and an air-actuated clam shell excavating bucket suspended by a cable from the air hoist. The carriage came with the motor on it and the single drum hoist was readily available. The clam shell was suspended by a single line which merely raised and lowered it but the opening and closing of it was by compressed air from an air cylinder. The action was different from that of a line from the hoist. The clam shell had its jaws open when it was dropped into the muck pile and the action of closing the jaws by the use of compressed air from the air cylinder forced them into the muck. But when the two line clam shell was used the closing of the jaws by the digging line caused an upward pull. The air cylinder was not up on the carriage but formed part of the clam shell and was controlled by an air line.

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Mr. Smith then proceeded to enumerate what he considered to be the advantages of the defendant's apparatus over the plaintiff's as specifically described in the specification and illustrated in its accompanying drawings and I set them out. In the first place, so he said, the defendant used a standard blasting set to start with, whereas the plaintiff's peripheral frame had to be specially fabricated. Next, the defendant's shaft mucker had a trackway mounted upon the blasting set, whereas the side members of the plaintiff's peripheral frame formed the trackway upon which the carriage ran. Furthermore, the defendant's carriage could be readily removed from the shaft bottom to the surface for maintenance repairs, whereas the carriage on the plaintiff's apparatus was not readily removable. Then Mr. Smith said that the defendant's carriage afforded the operator excellent visibility of the operations at the bottom of the shaft. He was able to see through the hole between his feet and on each side between the rails and the inside members of the frame down to the bottom of the shaft. It was Mr. Smith's opinion that the operator of the Riddell Mucker would have less chance of seeing what was going on at the bottom of the shaft than the operator of the defendant's shaft mucker. There were other alleged advantages. The defendant's mucker gave better protection to the timbers of the permanent sets and the upper rectangular frame could be used as a staging for placing the next permanent set. And there was also the advantage in the positive action of the clam shell in the defendant's mucker, to which I have referred, making for a more assured load and a greater chance of the full capacity of the clam shell being used. Thus also a single drum hoist was used instead of a double drum hoist or two single drum hoists. The advantages to which Mr. Smith referred were advantages, not differences, and were improvements.

On his cross-examination Mr. Smith admitted that at Malartic Gold Fields the defendant did not use the frame construction subsequently used at Lyndhurst but only the lower portion of it, that is to say, the portion without the four corner posts and the top frame. Mr. Smith also admitted that he knew that the mucker used by the plaintiff's licensee at Fecunis Lake had a frame like that used by the defendant at Lyndhurst and that the Fecunis Lake shaft was sunk before the defendant began its work at Lyndhurst,

although he said later that he had not himself seen the operation at Fecunis Lake but had read about it later. And he did not know who, in the defendant's employ, had conceived the idea of putting the posts and the top frame on the frame that had been used at Malartic. Mr. Smith also corrected his earlier statement that the rails on the defendant's apparatus were ordinary railway rails. They were of 6" wide flange structural steel with a square 2" × 2" top welded on it on which top the wheels of the carriage ran.

Some of the alleged advantages enumerated by Mr. Smith were disputed. For reasons that I shall refer to later I do not agree that the defendant used a standard blasting set upon which it mounted its trackway any more than the plaintiff did. And, while Professor Rice admitted, on his cross-examination, that the defendant's carriage was simpler in design than the plaintiff's and more readily removable than that specifically described in the specification and illustrated in the accompanying drawings, there was the counter-balancing advantage of greater safety in the plaintiff's apparatus. And it was disputed that the layout of the defendant's carriage and the placement of the operator on it gave greater visibility of what was happening at the bottom of the shaft than was afforded by the plaintiff's apparatus. In my opinion, such greater visibility was not established. The advantages of the "bird cage" arrangement used by the defendant at Lyndhurst were limited to cases where the rock wall was safe and there was no danger of flaking, as explained by Professor Riddell, as set out later in these reasons.

But even if the defendant's apparatus did have some advantages over the plaintiff's that fact does not free the defendant from liability for infringement if, apart from such advantages, it took the plaintiff's invention. The principle to be applied by the Court in dealing with the issue of infringement is well settled. It was clearly stated by Romer J. in *Nobel's Explosive Company, Limited v. Anderson*¹ as follows:

Several cases were cited to show the canons of construction on which the Courts have acted in different cases relating to infringement. But it is not necessary for me to deal with these cases in detail, for I desire emphatically to state that, in my view, one principle only governs all the cases, . . . ; and that principle is this: In order to make out infringement, it must be established, to the satisfaction of the Court, that the alleged

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¹ (1894) 11 R.P.C. 115 at 127.

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infringer, dealing with what he is doing as a matter of substance, is taking the invention claimed by the patent; not the invention which the Patentee might have claimed if he had been well advised or bolder, but that which he has in fact or substance claimed in a fair construction of the Specification.

Thus the basic issue in this case is whether the defendant took the invention claimed by the patent.

Before I deal with the evidence of Professor Corlett relating to alleged differences between the defendant's apparatus and the plaintiff's I should set out the facts regarding the variations which the plaintiff made in his machine. So far as the evidence goes the only mine shaft in which an apparatus constructed exactly as specifically described in the specification and illustrated in the accompanying drawings was used was at Barberton. Professor Riddell could not recall its use anywhere else. There were subsequent variations in design but no changes in fundamental principle. For example, it was possible to make changes in the controls so that the carriage could be managed with one operator instead of two. There was also a change in the means of supporting the track frame; instead of being bolted solidly to the lowermost permanent set it was hung by rods or cables, which made for less rigidity and greater capacity to withstand blasts, but this did not prevent the support members from being releasable or disconnectable within the ambit of these terms in the claims. But the evidence was more concerned with two other variations. One of these was used in the shaft that was sunk immediately after the shaft at Barberton. This was a timber frame shaft, whereas that at Barberton was a steel frame one. An adjustment was made to accommodate the scheme. In this modification there was a trackway on a timber rectangular frame and there was a change in the manner of securing the carriage. This modification was exemplified in a model of the apparatus filed as Exhibit P-5, of which an artistic drawing in perspective was shown on page 5 of Exhibit P-17. Here I might add that a perspective of the construction strictly according to the specific description in the specification and illustrated by the accompanying drawings was shown on page 3 of Exhibit P-17. The construction shown there was of steel, whereas that exemplified by Exhibit P-5 was of steel and timber. In the former the side members of the peripheral frame being of railway rails con-

stituted the trackway on which the carriage ran, whereas in the latter the trackway of railway rails was laid on the timber rectangular frame or, to put it in another way, a timber rectangular frame was put under the trackway. Professor Riddell agreed with Professor Corlett that it would have been possible to use a steel construction in a timber frame shaft but it was not advantageous to do so, for a timber frame under the trackway, being of a greater horizontal area than it, would give greater protection against the effects of blasting to the permanent sets above than the trackway itself would have done. The reason for this seems clear. The permanent sets in a timber frame set would require greater protection from blasting than those in a steel frame one and that could better be given by putting a timber rectangular frame under the peripheral frame of the trackway than by using a peripheral frame of steel by itself. This change would also involve a change in the manner of securing the carriage. In the apparatus specifically described and illustrated there were hangers, spoken of in the evidence as side members, extending upwardly around the outside of the side members of the peripheral frame, their upper ends being bent over the rails and receiving angle brackets bolted in place. In that way the carriage was secured so that it could not be derailed. It followed, of course, that this device rendered it less readily removable than it would otherwise have been. When the apparatus was being devised the problem of safety was a matter of vital concern and the device was a precautionary safety measure. It will be remembered that there was objection at Barberton to taking the apparatus down into the shaft on the ground that it would be unsafe. At that time, the feature of safety from derailment was an important one. Moreover, at Barberton it was never necessary to remove the carriage. But, if it had been, it would have taken only 15 minutes to do so. This could have been done by disconnecting the side members, putting a proper sling under the platform and hoisting it up by the cable operated from the hoist at the surface. Subsequently, it was found satisfactory to modify the device. The side members were eliminated and the problem of safety met by going into an underslung construction with a relatively low centre of gravity, but Professor Riddell stated that projection pieces that went below the track frame were bolted to

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the carriage and held it in place. According to the evidence of Mr. Gustafson, in the apparatus used at Ironton the base of the carriage was not below the rails but above them. The platform was still underslung below the axles of the carriage but not underslung below the rails. It was thus made more easily removable without elimination of the safety feature. In my opinion, the modifications exemplified by Exhibit P-5 were not departures from the principle of the patent but were covered by it. The variations were in matters of detail but the combination remained essentially the same.

This is also true of the other variation. This was sometimes called the "bird cage" arrangement. It consisted of a rectangular frame with a trackway on it, similar to that exemplified in Exhibit P-5, with vertical posts at its four corners and another rectangular frame resting on the four posts. This variation was first used in the Fecunis Lake Mine shaft that was sunk by Temiskaming Construction Company and Inspiration Mining and Development Company, these companies being licensees of the plaintiff under a license, dated December 1, 1953. The work was done by these companies in the deepening of a shaft, the upper portion of which had been sunk by the defendant. The "bird cage" arrangement was used by the licensees after a consultation with Professor Riddell. He was asked what he thought and his reply was that it was all right to use it, provided that the rock wall of the mine was very secure and there was little or no danger of scaling, that is to say, of rocks falling from the walls on the workmen below. The bird cage arrangement, a model of which was filed as Exhibit P-6, had certain advantages over the frame exemplified by Exhibit P-5. In the first place, if it was used it was not necessary to take the dividers out of the lowermost permanent set or to leave them out when it was constructed for there was enough room in the bird cage between the lower rectangular frame and the upper one to accommodate the carriage and its operator. There was also the advantage that the top frame of the bird cage could be used as a staging from which to construct and connect the next permanent set, whereas, if the Exhibit P-5 frame was used, the carriage was in the way and planks had to be put over it or it had to be hoisted up into one of the compartments. But the arrangement exemplified by Exhibit P-6 had a disadvantage

in that, since it was desirable to maintain a fixed distance from below the frame to the bottom of the shaft, it followed that there was a longer distance of unprotected rock wall below the lowermost permanent set than if a frame such as that shown by Exhibit P-5 had been used, which meant a greater hazard for the men at the bottom of the shaft. Thus the use of the bird cage arrangement was limited to cases where its use was rendered safe by the fact that the rock walls of the shaft were very secure and the danger of scaling, if any, was slight. Under the circumstances, I find that the so-called "bird cage" arrangement used by the plaintiff's licensees at Fecunis Lake was merely a variation in detail of the apparatus specifically described in the specification and illustrated by the drawings and that the combination involving its use was essentially the same as that described in the specification and defined in the claims.

Here I might add that even if the defendant's apparatus had patentable advantages over the plaintiff's, which is not suggested, and even if the plaintiff's apparatus was, except at Barberton, used in a form that was a variation of the form specifically described in the specification and illustrated in the drawings, the plaintiff's invention is not to be defeated on that account. There is support for this statement in the judgment of the Court of Appeal in *Edison and Swan Electric Light Co. v. Holland*¹ where it was held, *inter alia*, that the patent was not to be defeated because subsequent inventions improved the patented article, or because in consequence of such improvements practically no articles were made in accordance with the specification. *A fortiori* it is not to be defeated because of variations in details that do not affect the substance of the combination, for that is the invention.

I should also clear away the confusion in the evidence regarding the use of the term "blasting set". Professor Riddell agreed with Professor Corlett's definition of a blasting set as a temporary set suspended under the latest placed permanent set to protect the permanent sets from damage by flying rocks during the blasting phase of a shaft sinking cycle and Professor Rice gave a definition to the same effect.

¹ (1889) 6 R.P.C. 243.

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Professor Riddell explained that a standard blasting set was independent of all other frame work and was ordinarily hung from the latest placed permanent set by chains or other hanging devices, and not by studdles, in order that there should be freedom rather than rigidity so that the blasting set should be better able to absorb the impact of the blasting and so better protect the permanent sets from damage. An illustration of the common form of a blasting set was shown on page 31 of Exhibit P-16 and described in detail on page 29. There it was spoken of as a "blasting shield". According to this view of the term the substructure of the Riddell Mucker was not a blasting set. And Professor Riddell did not claim that it was. He made it quite clear in discussing the problems that faced him at Barberton that he could make a combination of blasting set and trackway by sacrificing some of the features of a blasting set, such as, for example, the partitioning members corresponding to the dividers between the compartments of the permanent sets, for, of course, they had to be eliminated in order that there should be a clear view of the bottom of the shaft from between the rails of the trackway. Consequently, Professor Riddell agreed that his peripheral frame was not a standard blasting set. He admitted that the use of the Riddell Mucker did not eliminate the use of a standard blasting set. If it was to be used it would have to be moved up to the bottom of the permanent sets. On the other hand, a standard blasting set was not necessarily required. But if the substructure of the plaintiff's apparatus was not a blasting set, in the ordinary sense of the term, neither was the "bird cage" frame of the defendant's apparatus or its lower rectangular frame a blasting set. Professor Riddell was, therefore, right when he said that he did not agree that the defendant mounted its carriage on a standard blasting set or that the motor was resting on a blasting set or that the track frame on his own drawing, filed as Exhibit G, was a blasting set, notwithstanding the fact that he had so marked it, or that the rails referred to in Exhibit H were mounted on a blasting set. Mr. Smith was, therefore, strictly speaking, in error when he said that at Lyndhurst the defendant took a standard blasting set and placed a trackway on it. It did not. The lower rectangular frame of the defendant's apparatus on which the trackway was placed was not a "standard"

blasting set. Nor was the frame shown on page 7 of Exhibit P-17 a blasting set in the ordinary sense, although it was so designated by counsel for the plaintiff and such designation was accepted by Mr. Harrison on his examination for discovery. Indeed, Mr. Smith admitted, on his cross-examination, that it might be a misnomer to call the "bird cage" frame a standard blasting set. And so it was.

But if the term "blasting set" is used loosely or is used to describe the support for the carriage, the peripheral frame of the plaintiff's apparatus, which was Professor Riddell's so-called combination of blasting set and trackway, with the necessary sacrifice of some of the features of a blasting set, was just as much a blasting set as the substructure in the defendant's apparatus. In neither case was there a "standard" blasting set but in each case an attempt was made to afford some of the protection that the use of a standard blasting set would have given. It may, therefore, be said that in each case there was a modified form of blasting set with no difference of substance between them.

I now come to consideration of Professor Corlett's evidence. He was called to prove that there were differences between the defendant's apparatus as used at Lyndhurst, with which he was familiar, and the plaintiff's or, to put it more nearly accurately, to show that there were features in the plaintiff's apparatus as claimed that were not present in the defendant's. The claims were read to him and he was asked whether he saw the various features specified in them in the defendant's apparatus. Counsel for the plaintiff objected to this line of questioning on the ground that it involved interpretation of the claims, a function exclusively for the Court and not for experts, but subsequently withdrew his objection. In my opinion, most of the alleged differences, if not all of them, could have been made the subject of argument by counsel and interpretation by the Court without the evidence of Professor Corlett, but there were some questions of fact involved and I did not see any reason why he should not be permitted to say that he could not see in the defendant's apparatus certain of the features specified in the claims. Since Professor Corlett's evidence was so strongly relied upon by the defendant, I shall deal with it in detail and make my findings in respect of each matter of contended difference. And first, I shall consider

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the features specified in claim 1 which Professor Corlett did not see in the defendant's apparatus. He did not see "a peripheral frame having substantially the same shape as the cross-sectional shape of the shaft being sunk". What he meant was that he did not see a peripheral frame such as that specifically described in the specification and illustrated in the accompanying drawings. What he saw was two rails, on which the carriage, or platform as it is described in the claims, rode on wheels, and they did not close to make a frame. Then, he said that he did see a peripheral frame, namely, the blasting set. Professor Corlett's answers illustrate the difficulty suggested by counsel for the plaintiff. He submitted that the term "peripheral frame" might properly include either the whole "bird cage" arrangement of the defendant's apparatus, as shown on page 7 of Exhibit P-17 and as exemplified by Exhibit P-6, or only the lower portion of it. But we are concerned with the kind of peripheral frame on which the wheels of the platform ran. Here Professor Corlett was in error when he said that the rails do not close to make a frame. They do. The evidence is that they butted up against the end members of the so-called timber blasting set and were secured to them by angle irons so that the trackway formed a frame. In the plaintiff's arrangement, as shown by the drawings, the peripheral frame was itself the trackway on which the wheels of the platform ran. Similarly, there was such a peripheral frame in the defendant's apparatus. It could be either the trackway by itself, consisting of the steel rails and the timber ends against which the rails abutted and to which they were secured by the trackway, or the trackway together with the so-called blasting set on which Mr. Smith said it was placed. In my opinion, there was a "peripheral frame" in the defendant's apparatus, namely, the trackway, consisting of the rails and the end members of the so-called blasting set, and the fact that it was placed on the so-called blasting set does not divest it of the character of being a "peripheral frame" within the meaning of the term as used in the claim.

Next, Professor Corlett did not see the "said frame having a load carrying rail spaced outwardly a *short distance* from the mine shaft wall". In his opinion, the defendant's apparatus had a load carrying rail placed *more than a short distance* from the wall. There is no substance in this

attempted differentiation. The term "short distance" is relative. The evidence indicates that the rails in the plaintiff's apparatus, as shown in the drawings, were nearer to the shaft wall than those in the defendant's apparatus but even if the rails in the defendant's apparatus were farther away from the shaft walls than those in the plaintiff's they were still only a short distance from them. The purpose of the requirement is clear, namely, that the rails should be placed such a sufficiently short distance from the walls that there would be enough room between the rails for the muck bucket to pass between them.

Then Professor Corlett did not see "a platform extended *across* the mine shaft". Here I might comment that the word "platform" is not used in the disclosures portion of the specification, except in respect of circular frame shafts with which we are not here concerned, but its meaning is clear. Professor Rice suggested that in the plaintiff's apparatus, as shown by Figure 5 of the drawings, the platform consisted of the planking of the carriage and that in the defendant's apparatus it was the deck of the carriage. Professor Corlett's reason for saying that he did not see the defendant's platform extending *across* the mine shaft was that it extended only part of the way across the mine shaft and was, therefore, not across it. But when the claim spoke of the platform as extending across the mine shaft all that was meant was that it extended in the direction of the short axis of the shaft or at right angles to the long one. No one in his senses would have read the word "across", in the context in which it appears, as indicating that the platform in the plaintiff's apparatus extended all the way across the shaft, for that would have involved an inoperative and impossible operation.

Then when Professor Corlett was asked whether he saw in the defendant's apparatus a "platform having a lesser cross-sectional area than the frame so as to present an unobstructed space alongside the platform for hoisting excavated material" he replied that he saw a platform having a lesser cross-sectional area than the frame, but did not see an unobstructed space *alongside* the platform for hoisting excavated material. In his view a space *alongside* the platform meant a space between it and the side member of

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the frame, whereas the unobstructed space in the defendant's apparatus was at the end of the platform, that is to say, in front of and behind it but not alongside it. But "alongside" means "along" or "parallel to the side of" and since the platform has four sides "alongside" may mean along the front or along the back or along either of the other two sides. What is meant is that the platform is so much smaller in cross-sectional area than the shaft that between it and the end of the shaft in the direction of its long axis there is an unobstructed space for hoisting excavated material. The difference between the two platforms is due to the position of the operator on the carriage. This is shown by photographs filed as exhibits. The photographs of the defendant's carriage, filed as Exhibits I, J, K and L, show that the operator faced in the direction of the long axis of the shaft with the result the platform was longer in the direction of the long axis than in that of the short one. It followed, of course, that the unobstructed space for the hoisting of the excavated material was either in front of the operator or behind him and, consequently, in that sense, either in front of the platform or behind it. On the other hand, Exhibit M shows that the operator of the carriage in the plaintiff's apparatus faced in the direction of the short axis of the shaft with the result that the platform was longer in the direction of the short axis of the shaft than in that of the long one. And it followed that the unobstructed space for the hoisting of the excavated material was on each side of the platform and, therefore, alongside. Consequently, it does not matter in the least whether the unobstructed space is described as being *alongside* the platform or in front of or behind it. The unobstructed space is the same in each case, namely, the space between the side of the platform, whether called side or front or back, and the end of the shaft in the direction of its long axis. All that is required is that the area of the platform should be restricted so that when the carriage is moved as desired there shall not be any obstruction in the way of making use of the compartments in the permanent sets for the purpose for which they were intended.

Next, in respect of claim 1, Professor Corlett did not see in the defendant's apparatus "wheels *on* the platform positioned so as to bear upon the rail to be supported thereby".

In his view, the wheels in the defendant's construction were not *on* the platform but *under* it. There is no merit in this attempted distinction. It was obviously not intended by the claim that the wheels should be on the platform, in the sense of being on top of it. What is plainly meant is that the wheels should be connected to the platform so that it should run on the rails on wheels. Since in each case the platform ran on wheels it could properly be said that there were wheels on the platform. And that was as true in the case of the defendant's apparatus as in that of the plaintiff's.

Finally, Professor Corlett did not see the excavating bucket in the defendant's apparatus as being operated from the hoist on the platform. His reason for that statement was that in the case of the defendant's apparatus the clam shell was opened and closed by compressed air from an air cylinder on the clam shell. But it was conceded that there was an operation of the clam shell from the hoist in that it was lowered and raised therefrom and, to that extent, it was operated from the hoist on the platform.

Thus, in respect of claim 1, subject to what I have to say about the defendant's general argument, I do not see any real difference between the defendant's apparatus as used at Lyndhurst and that of the plaintiff as defined in claim 1.

There were no differences in respect of the limitation in claim 2, so that I now turn to the features in claim 3 which Professor Corlett did not see in the defendant's apparatus. He saw a temporary set having a peripheral contour like the permanent sets of the mine shaft, but he did not see such a set "having load-bearing rail surfaces spaced *along* the opposite sides thereof". What bothered him was the word "along". The rail surfaces were removed from the sides of the shaft and positioned independently of the location of the peripheral frame. If "along" meant the same as "along-side" he could see the rail surfaces spaced *along* the opposite sides of the shaft. Rail surfaces spaced *along* the opposite sides of the shaft mean that they were parallel to the length of the shaft or extended through its whole length or from one end of the shaft to the other. That feature was present in the defendant's apparatus.

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Next, Professor Corlett did not see "a platform having a *length* slightly less than the distance across the rectangular mine shaft from one load bearing rail surface to the other, and a *width* substantially less than the other cross-sectional dimension of the mine shaft". In his view the *length* of the platform had no connection with the distance across the mine shaft and there was a similar difficulty with regard to its *length*. I have already, in dealing with claim 1, referred to the fact that by reason of the placement of the operator on the carriage, the platform in the plaintiff's apparatus was longer in the direction of the short axis of the shaft than in that of the long one from which it followed that such dimension was spoken of as its length, whereas the other one was called its width. In the defendant's apparatus the dimensions of the platform were reversed, the dimension in the direction of the short axis being less than in that of the long one. And this difference in dimensions is, of course, related to the fact that the rails in the plaintiff's apparatus are farther apart and, therefore, spaced a shorter distance from the walls of the shaft than those of the defendant's apparatus. That was, perhaps, partly due to the fact that at Barberton the shaft was 8 feet in width, whereas at Lyndhurst it was only 7 feet. But, in my opinion, this difference in the shape at the platform, due as it was to the placement of the operator, is not of any significant importance. It would be absurd, in my opinion, to suggest that the invention, as defined in claim 3, should be defeated because the platform in the defendant's apparatus was longer by 5 inches in the direction of the long axis of the shaft than in that of the short one, whereas the platform in the plaintiff's apparatus was longer in the direction of the short axis than in that of the long one.

And Professor Corlett did not see "wheels *on* the platform positioned so as to roll upon said rails". In his view, the wheels in the defendant's apparatus were *under* the platform and not *on* it but he conceded that if wheels *on* the platform meant wheels connected with it then he saw such a feature in the defendant's apparatus.

Finally, in respect of claim 3, Professor Corlett did not see "reversible operator controlled power means mounted on the platform and connected to wheels thereof for moving the platform *sidewise* along the rails". In his view, the platform

in the defendant's apparatus moved *lengthwise* and not sidewise. There is no substance in this contention. "Lengthwise" and "*sidewise*" are relative terms and the relationship has already been referred to. In the plaintiff's apparatus the operator faced in the direction of the short axis of the shaft so that any movement of the platform must be to his right or left and, consequently, sidewise, whereas in the defendant's apparatus since the operator faced in the direction of the long axis of the shaft the movement of the platform must be forward or backward and, consequently, lengthwise. But the fact of the matter is that in each case the platform moves from one end of the shaft to the other in the direction of its long axis for, obviously, there is no other direction in which it can move. Thus it makes no difference whether the movement is described as "sidewise" or "lengthwise". The terms both mean a movement in the direction of the long axis of the shaft.

Only a brief reference need be made to claim 10. It is essentially the same as claim 3 except that it is somewhat broader. It does not refer to wheels on the platform but speaks only of means for moving it sidewise along the rails. And it speaks of a temporary set having a peripheral contour *substantially* like the permanent sets of the mine shafts.

And no detailed reference need be made to the other claims in suit. Claim 4 is dependent on claim 1 and claims 5, 6 and 7 are dependent on claim 4.

In my opinion, the evidence of Professor Corlett does not show any real difference between the defendant's apparatus and the plaintiff's. On the contrary, it indicates that all the integers of the plaintiff's combination were present in the defendant's apparatus, either exactly or with variations of insignificant importance, and that in each case the integers were combined in the same way. The variations in some of the integers of the defendant's apparatus did not effect any change in its unitary result over that which flowed from the use of the plaintiff's apparatus. The reason for that is clear, namely, that the combination of integers that made up the defendant's apparatus was essentially the same as that which the plaintiff invented.

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Counsel for the defendant contended that the defendant's apparatus did not infringe the plaintiff's patent. In his argument he sought to confine the plaintiff's invention, primarily, to the car or carriage specifically described in the specification and illustrated in the accompanying drawings and then to the carriage and the peripheral frame described in the specification. At one stage of his argument he submitted that the carriage was the invention and, at an other stage, that it was the essential part of the invention and that the carriage and the peripheral frame were a single assembly designed for the purpose of preventing the carriage from being derailed during the shaft sinking operations. In this view of the invention, he was willing to concede that the plaintiff's apparatus had the necessary attributes of patentability but submitted that in these respects the defendant's apparatus was so different from the plaintiff's that it did not infringe. Counsel drew attention to the provisions of the specification for variations in material or design and enumerated the specified variations and submitted that, since the specification did not refer to any variations for the carriage or the peripheral frame, no variation of them was permissible under the patent. From this it followed that such variations of the plaintiff's apparatus as that used at Ironton and exemplified by Exhibit P-5 or the "bird cage" arrangement used at Fecunis Lake and exemplified by Exhibit P-6, were not within the ambit of the protection of the patent. Put generally, the argument was that the particular carriage and peripheral frame which the plaintiff had specifically described in the specification and illustrated in the accompanying drawings were essential parts of his combination and that, since it was not specified that any alternate means might be used for such carriage and peripheral frame, the plaintiff's invention as claimed must be confined to a shaft sinking apparatus having as two of its elements a carriage and peripheral frame of the kind specifically described and illustrated and that, since the carriage and temporary set in the defendant's apparatus were different the defendant's apparatus did not infringe. It was conceded that if claims 1, 3 and 10 were valid and infringed the other claims in suit, except claim 11, were also possibly infringed.

I do not agree with the argument thus put forward by counsel for the defendant. The plaintiff's invention was not confined to an apparatus having the carriage which was specifically described in the specification and illustrated in the accompanying drawings and the peripheral frame described and illustrated. A carriage and a peripheral frame were, of course, essential elements in the apparatus, in the sense that it would not be possible to have a mucking machine for use down in a mine shaft without them. But it would not be fair to say that all that the plaintiff invented was the carriage and peripheral frame specifically described and claimed. It is manifest that what he invented was a mucking machine. That was an invention of a combination of which the carriage and peripheral frame were only elements. It was necessary to have a peripheral frame as a trackway for the carriage or platform and to have the latter as a base for the motor and hoist and of such shape and size that it would not interfere with or obstruct the work of removing the muck. In the specification the plaintiff gave the best description of the carriage element of his invention of which he was then aware but he did not thereby limit his invention to the use of such a carriage. What he was concerned with was a machine that could be effectively and safely used at the bottom of a mine shaft and so mechanize the mucking operation. Having made that invention he was entitled to define it in the claims in such a way as to protect himself in the enjoyment of the monopoly of his invention. He was, in a sense, the master of his claims, within the breadth of his invention, and entitled to draft them "in words wide enough to secure the protection desired", as Green L.J. put it in *R.C.A. Photophone, Ld. v. Gaumont-British Corporation Ld. et al.*¹. Consequently, he could, if he had so desired, have so drafted his claims as to confine his monopoly to that of a combination having the carriage and peripheral frame specifically described in the specification and illustrated in the drawings and, if he had done so, the defendant might not have been liable for infringement. But the fact is that the plaintiff did not put any such limitation in his claims. And, as Lord Wright M.R. put it in the case just cited, at page 186, "the precise ambit of the claim must depend on the language used". There is no limitation

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¹ (1936) 53 R.P.C. 167 at 205.

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in the claims that would warrant support for the submissions of counsel for the defendant to which I have referred and I reject them.

The onus of proving infringement is, of course, on the plaintiff but I have no hesitation in finding that he has fully discharged it. In my judgment, the defendant has taken the invention claimed by the patent within the meaning of the principle stated in *Nobel's Explosives Company, Limited v. Anderson* to which I have already referred. The fact that its apparatus was not exactly the same as the plaintiff's does not free it from liability. There is infringement of a patent when the real substance of the invention covered by it is taken: *vide The Rheostatic Company Limited v. Robert McLaren and Company Limited*¹ where The Lord Justice Clerk (Aitchison) said:

The broad test of infringement is whether the alleged infringer has taken the real substance of the invention as claimed, what Lord Cairns called "the pith and marrow" of the invention. The devices need not be absolutely similar, there may be variation, either addition or subtraction or substitution, and in each case it must be a question of fact whether the variation makes any real difference or is merely a distinction without a difference. An infringement is rarely an exact replica of the device infringed.

Vide also the statement to the same effect by Lord Morton of Henryton in *Raleigh Cycle Coy Ltd. et al. v. H. Miller and Coy Ltd.*² That is the case here. The combination in the defendant's apparatus was substantially the same as that of the plaintiff's. The unitary results flowing from the combinations were the same in each case. Indeed, it could not be otherwise for there was no real difference between the two combinations. The defendant's apparatus was plainly an infringement of the plaintiff's patent.

Under the circumstances, I have come to the conclusion, although my views inclined otherwise in the course of the trial, that it is not necessary in the present case to consider the doctrine of mechanical equivalence. In my opinion, the facts do not call for resort to its application. There was infringement without it.

¹ (1936) 53 R.P.C. 109 at 118.

² (1948) 65 R.P.C. 141 at 159.

There remains the question of claim 11, the process or method claim. Its validity was strongly disputed by counsel for the defendant. He submitted that it was objectionable for two main reasons, one that it was too broad and the other that the process claimed in it was not described in the specification. I agree with his submissions. Section 2(d) of *The Patent Act*, 1935, defines "invention" as follows:

2. In this Act, and in any rule, regulation or order made under it, unless the context otherwise requires,

(d) "invention" means any new and useful art, process, machine, manufacture or composition of matter, or any new and useful improvement in any art, process, machine, manufacture or composition of matter;

Thus, it is clear from this definition that the invention of a process, which may be called a method, is a different invention from that of a machine, as the plaintiff's apparatus was. And while the patent would not be invalidated by reason only that it was granted for more than one invention, *vide* section 37(1) of the Act, it is a basic rule of patent law that an invention cannot be validly claimed unless it has been described in the specification in the manner required by the law. The legal requirement has been made statutory by section 35(1) of the Act which provides in part as follows:

35. (1) The applicant shall in the specification correctly and fully describe the invention and its operation or use as contemplated by the inventor, and set forth clearly the steps in a process, . . . in such full, clear, concise and exact terms as to enable any person skilled in the art or science to which it appertains, or with which it is most closely connected, to . . . use it . . . In the case of a process he shall explain the necessary sequence, if any, of the various steps, so as to distinguish the invention from other inventions . . .

I am satisfied that this requirement has not been complied with so far as claim 11 is concerned. The plaintiff's apparatus has been correctly and fully described in the specification. It is defined as an apparatus and elements comprising it have been described. It is a mucking machine. The manner of its operation has been explained in such a way that any person skilled in the art could operate it as successfully as the plaintiff himself. But I am unable to find in the specification, which I have read several times, such a correct and full description of the process or method defined in

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claim 11 as the law requires, or any explanation of the necessary sequence of the various steps in the process. Professor Riddell described the method in his evidence but I am unable to find the necessary description in the specification. On that ground alone, without further comment on the undue breadth of the claim, I find claim 11 invalid.

I should add that in the course of the trial I ruled against the admissibility of the plaintiff's United States patent. Counsel for the defendant sought to file it for the purpose of showing that claim 11 was not in the United States patent and that, consequently, it was invalid when introduced in the Canadian application, as being too broad. Thus, it was sought to use the United States patent to interpret the Canadian one. In my opinion, it is not permissible to interpret the validity of a claim in a Canadian patent by resort to a patent issued in another country where the law and practice may not be the same as in Canada.

For the reasons given, there will be judgment in favor of the plaintiff declaring that the claims in suit, except claim 11, are valid and have been infringed by the defendant and granting the injunction sought. If the parties are not able to agree on the quantum of damages there will be a reference as to damages to the Registrar or a Deputy Registrar of the Court and judgment for such damages as may be found on the reference. The plaintiff will also be entitled to costs to be taxed in the usual way.

Judgment accordingly.

BETWEEN:

RELIABLE PLASTICS CO. LIMITED . . . PLAINTIFF;

AND

LOUIS MARX & COMPANY INC. }
and LOUIS MARX & COMPANY }
OF CANADA LTD. }

DEFENDANTS.

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Patents—Action for impeachment and declaration of non-infringement—Action for damages for threats—Trade libel—Slander of title—Injurious falsehood—The Patent Act, 1935, S. of C. 1935, c. 32, ss. 47, 56, 60(1), 60(2)—The Unfair Competition Act, 1933, S. of C. 1932, c. 38, ss. 11(1)(a), 11(1)(c)—Statute of Monopolies, 21 James 1, c. 3—Presumption of validity of patent—Onus of showing invalidity not easy to discharge—Simplicity of putting idea into effect not an indication of obviousness—Claim for “transparent plastic” not too wide—Sale of articles made prior to issue of patent not an infringement—Mere threat of infringement action not a cause of action—No cause of action for threats if no evidence of malice and statements not false.

The plaintiff made an open face, one-piece polystyrene injection moulded bagatelle or pin-ball game called Fire Ball, using a thermoplastic polystyrene that could be melted. In 1952 the first-named defendant produced an enclosed game which forced the appellant to make a change in its game. In 1953 the plaintiff’s Fire Ball game went off the market and it then produced three cheaper plastic pin-ball games. These were produced prior to July 14, 1953, the date when Canadian patent No. 494,947 for a Ball Control Game Apparatus issued to the first named defendant. Subsequently, the plaintiff produced other pin ball games. On August 6, the second-named defendant, a subsidiary and Canadian licensee of the first named defendant, wrote to approximately 125 persons in the plastic toys and games trade, including some of the plaintiff’s customers and purchasers, stating that it intended to enforce the patent and prosecute infringements of it and notifying the addressees of the letter accordingly. The plaintiff then brought an action for impeachment of the patent and a declaration that its games did not infringe its claims and for damages alleged to have been sustained by it as the result of the letter. The defendants counterclaimed for a declaration that the patent was valid and had been infringed by the plaintiff and for an injunction and damages.

Held: That the defendants’ game was not anticipated by any prior patent or publication and that, while there were elements in it that were old, there was no doubt that it was new.

- 2. That the defendants’ game had great commercial success and its utility was proved beyond dispute.
- 3. That there is a statutory presumption of the validity of the patent under section 47 of *The Patent Act, 1935*, and the onus of showing its invalidity is on the party attacking it, that where there has been a substantial and useful advance over the prior art, as in the present case, the Court should not make the onus of showing the invalidity of the patent an easy one to discharge and that the plaintiff has not discharged it in the present case.

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4. That the fact that it was easy to put an idea into practice and that all that was needed to do so was to apply well-known techniques to well-known substances does not prevent the embodiment of the idea from patentability if the idea itself involved the exercise of inventive ingenuity. *Hickton's Patent Syndicate v. Patents and Machine Improvements Company Ltd.* (1909) 26 R.P.C. 339 applied.
5. That the simplicity of putting an idea into effect is not an indication that the idea was not inventive or that it would be obvious to a person skilled in the art.
6. That the fact that the inventor saw the plaintiff's Fire Ball before he finally produced his invention does not deny his invention, that his game would not have been obvious to a person skilled in the art and that the necessary element of inventive ingenuity was present in it.
7. That the statement in the claims in which the term "transparent plastic" appears that the lower ends of the ball intercepting elements referred to in them should form rivets which pass through the bottom of the game and be headed beneath it confines the "transparent plastic" to be used to thermoplastic and does not extend it to thermo setting plastic and constitutes a complete answer to the charge that the claims are broad enough to include thermo setting plastic as well as thermo plastic and are, consequently, too wide in that they cover thermo setting plastic that would not work since such a plastic could not be "swedged", meaning thereby that the ends of the intercepting elements referred to could not be heated and flattened out to form rivets as required by the claims.
8. That the plaintiff is not entitled to a declaration that the defendant's patent is invalid and that the defendants are entitled to a declaration that claims 1, 3 and 5 are valid.
9. That even if the three games which the plaintiff made prior to the date of the issue of the patent came within the terms of the claims it is saved by section 56 of the Act from liability for infringement in respect of them.
10. That the games which the plaintiff made subsequently to the date of the issue of the patent infringe claim 1 of the patent and the defendants are entitled to a declaration accordingly.
11. That while there was evidence that the letter written by the second defendant did have an adverse effect on some of the plaintiff's customers and purchasers and that it suffered some damage as a result it did not follow that this gave the plaintiff a cause of action against the defendants.
12. That the statements in the letter written by the second defendant were not false and the plaintiff had no cause of action under section 11(1)(a) or section 11(1)(c) of *The Unfair Competition Act, 1932*.
13. That there was no evidence to support the plaintiff's claim under the Statute of Monopolies.
14. That, since the statements in the second defendant's letter were not false and there was no evidence of malice on its part, the plaintiff had no cause of action against the defendants for trade libel, slander of title or disparagement of property or injurious falsehood.

ACTION for impeachment of defendants' patent and declaration of non-infringement and for damages for threats.

The trial was held before the President of the Court at Ottawa.

Gordon F. Henderson, Q.C., and David Watson for plaintiff.

Christopher Robinson, Q.C., and E. P. Medcalf, Q.C., for defendants.

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The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (April 11, 1958) delivered the following judgment:

In this action the plaintiff, which is a corporation engaged in manufacturing and selling plastic toys and games with its principal place of business in Toronto, seeks a declaration under section 60(1) of *The Patent Act, 1935*, Statutes of Canada, 1935, Chapter 32, that Canadian letters patent No. 494,447, dated July 14, 1953, of which the first-named defendant, a corporation also engaged in the plastic toys and games business with its principal place of business in New York, is the owner and of which its subsidiary, the second-named defendant, a corporation also engaged in the plastic toys and games business with its principal place of business in Toronto, is a licensee, are invalid. The plaintiff also seeks a declaration under section 60(2) of the Act that certain plastic bagatelle or pin-ball games made by it at the date of the issue of the letters patent do not infringe any of the claims of the patent.

But the plaintiff's main claim is for damages alleged to have been sustained by it as the result of a letter written by the second-named defendant, dated August 6, 1953, and sent to approximately 125 persons in the plastic toys and games trade, some of whom were customers of or purchasers from the plaintiff. The letter was written from New York and the list of persons to whom it was addressed together with a copy of the letter was filed as Exhibit 26. The letter was in the following terms:

August 6th, 1953.

Gentlemen:

We are pleased to announce that a Canadian patent No. 494,447 covering the construction used in our bagatelle and other skill games, in our current line has been granted by the Canadian Patent Office under date of July 14, 1953. The patent issued to Louis Marx & Company, Inc. of New York City, and we are licensed to manufacture and sell in Canada under the Canadian patent.

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We shall not attempt to summarize or to interpret the scope of the patent, which speaks for itself. However, we are informed by counsel that our games listed below and others in our line, embody our new construction and are protected by the patent:

G-64 and G-88	Ladder Ball Game
G-68 and G-72	Bagatelle
G-70 and G-86	Skor Ball Game
G-82	Big Game
G-92 and G-94	Roll Bowl Game
G-98	Acro Ball Game
G-184	Grand Prize Bagatelle
G-59	Pin Ball Game Assortment

We are advised by counsel that the "Lucky Star" game, manufactured by T. Cohn, Inc., of New York City, and being offered in Canada, is an infringement of the Canadian patent. It may interest you to know that a suit has been filed under the corresponding U.S. patent against T. Cohn, Inc. We are also advised that the "Speedway" and "Hook-A-Fish" games, made by Reliable Toy Co., Ltd. (or/and Reliable Plastics Co., Ltd.) of Toronto, are an infringement of the Canadian patent. The sale of the above products in Canada competes directly with, and is injurious to our own business in Canada. It is our intention (joined by Louis Marx & Company, Inc.) to enforce the Canadian patent and to prosecute these infringements thereof.

Although the U.S. patent has issued only recently, it has already received recognition from other manufacturers, and two such manufacturers have acknowledged infringement and validity of the patent and have taken licenses under the same.

We are advised that the Canadian patent is valid and that its validity will be upheld in the Canadian courts. We are taking this opportunity to formally notify you of the patent, in the thought that you would not want to knowingly become an infringer thereof.

We would appreciate word from you regarding your intentions in this matter.

Very truly yours,
LOUIS MARX & CO. OF CANADA, LTD.

Harmer L. Cox

The defendants, on the other hand, counterclaim for a declaration that the letters patent are valid and have been infringed by the plaintiff and for an injunction and damages.

A brief statement of the facts leading to the writing of the letter and the bringing of the action may be helpful. The plaintiff has been in the plastic toys and games business for a considerable time. This is a very competitive business, for the average life of a plastic toy or game is very short and there is a constant search for something new and attractive. Competitors in the trade watch each other's productions

closely. One of the plastic games brought out by the plaintiff was a bagatelle or pin-ball game called Fire Ball, an example of which was filed as Exhibit 3. It will be described later. Fire Ball was a one-piece polystyrene injection moulded game. The polystyrene used was a thermo plastic that could be melted into a liquid. The term "injection moulded" means that the liquid plastic is injected into a mould and hardened into its final form in the mould which is then removed leaving the completed plastic article. The Fire Ball game was shown to the trade very early in 1950 and shipments to it began in May, 1950. The game was priced at 98 cents and was a success. Fire Ball was an open face game, that is to say, there was no top on it. There was a slight change in its form in September, 1951, and it continued to be sold in 1952. But competition in the United States showing up in 1952 forced a change to an enclosed game. There is no doubt that this change was due to the effect of the plastic bagatelle game brought out by the first-named defendant in New York, an example of which was filed as Exhibit 7. The plaintiff's representatives saw this at the Toy Show in New York in 1952 and felt that it would adversely affect the sales of Fire Ball since it was more expensive to make and "looked more for the money". Indeed, Fire Ball went off the market in 1953. When the plaintiff saw the change coming it proceeded to get out enclosed games that would be cheaper than the defendants' game and eventually three plastic pin-ball games, which it called "Hook-a-Fish", "Speedway" and "Game Hunt", examples of which were filed as Exhibits 8A, 8B and 8C, were produced. These games were sold at 25 cents each. The moulds for their production were obtained in June, 1953, and they were said to have been made prior to July 14, 1953, the date of the issue of the Canadian letters patent, the first-named defendant having obtained a United States patent at an earlier date. The games were first marketed on July 18, 1953. After a letter from the defendants' solicitor to the plaintiff, the second-named defendant wrote and circulated the letter of August 6, 1953, the terms of which have been cited, and then the plaintiff launched its action on August 24, 1953. It is obvious that the plaintiff decided to take proceedings before the defendants did so. It is likewise obvious that it did not intend to be diverted from its course by the threat of proceedings contained in the letter

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of August 6, 1953, for it went ahead with its plans to produce other enclosed games. The moulds for three other pin-ball games, which it called "Trail Blazer", "Pirate Gold" and "Ambush", examples of which were filed as Exhibits 9A, 9B and 10, were completed on August 11, 1953. The first shipments of "Trail Blazer" and "Pirate Gold" were made on September 1, 1953, and of "Ambush" on September 12, 1953. The first two went on the market at 49 cents each and the third at 98 cents. Hereafter, the games produced by the plaintiff will be referred to by their exhibit numbers.

I now set out the facts relating to the production of the defendants' game. The alleged inventor was R. J. Lohr, an employee of the first-named defendant and head of its experimental and development department. One of his functions was to design new toys and games. Ideas for them came from many sources. His company avoided enclosed bagatelle games with glass tops because of their danger to children. In his search for new bagatelle games he made a small model of a plastic enclosed game in 1949, getting his idea from a Japanese game that he had seen. An example of a game similar to it was filed as Exhibit K. The game Mr. Lohr had then in mind was to be sold at 10 cents and the costs were estimated accordingly. The idea behind it was basically the same as that behind the game he eventually designed. There is no doubt that he had the plaintiff's Fire Ball game before him before he put out his final game. He found it over-priced at 98 cents but he considered that a game embodying his idea would result in a superior game. Finally, he did a drawing on December 6, 1950, from which the defendant's game finally developed as early as February 7, 1951. Eventually Mr. Lohr's model was approved by the first-named defendant on September 19, 1951 and an example of it was shown at the Toy Show in New York in March, 1952. Mr. Lohr stated that it was received very enthusiastically and went so far as to say that "it hit the toy industry like a bombshell". He further said that it revolutionized the bagatelle industry, and subsequently produced an entirely new line of small games that had been very important to the defendants' business and, as he said, "spawned a lot of imitators". According to him, the game turned out to be the best toy of the year for his company.

According to Mr. H. Cox, the manager of the foreign operations of the first-named defendant and the manager of

the second-named defendant, the production of the defendants' game began in the United States in March, 1952, and it was first made in Canada in December, 1952. It had great success, proving to be the most outstanding item in its whole 1952 line.

The plaintiff's main complaint against the defendants is that it suffered damage through loss of sales and loss of good will by reason of the threats made to its customers and purchasers from it in the letter of August 6, 1953. There is evidence that the letter did have an adverse effect on some of the plaintiff's customers and that it suffered some damage as a result but it does not necessarily follow that this gives it a cause of action against the defendants. It will first be necessary to consider whether the patent is valid, then ascertain whether the plaintiff has infringed any of the defendants' rights and, finally, consider whether the plaintiff has any cause of action for damages by reason of the threats said to be contained in the letter.

Before I deal with the validity of the patent I should give a brief description of the plaintiff's Fire Ball game which it commenced to market in May, 1950. As stated, an example of it was filed as Exhibit 3. It was an open face game with legs inserted at the back at the top end. It had an arrangement of pins and other obstructions and cups or pockets. The game was played with a ball activated by a spring. Five balls were sold with each unit. The cups or pockets had figures marked near them to indicate score values and the purpose of the game was to shoot the ball with the aid of the spring to the top of the board in such a way as to cause it to come to rest in the pocket that had the largest score figure. When all the balls had been shot the score figures were added together. The object of the game was to get as large a score as possible. The balls came in a bag with the game and the box containing it had the following instructions:

Insert two legs in position to hold up top end of game; place one ball at a time in shooting position; pull trigger back and release; try to shoot balls into the cups. They have two numbers. The first ball in the cup scores the lowest number, but when a second ball lands in the same cup the highest number is scored for that ball. The black ball counts double the amount where it lands. All balls must score. High score wins.

The game was made of plastic and was integrally moulded by injection moulding. The back was painted. A leaf spring was inserted at the bottom of the shooting alley.

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I now refer to the defendants' patent. The specification describes the invention covered by it as a Ball Control Game Apparatus and it was said that it related to games and more particularly to ball control games. The objects of the invention are stated as follows:

The primary object of the present invention is to generally improve such games. A more particular object is to so simplify the construction of the game that it may be made under quantity production conditions at low cost, while at the same time strengthening the game structure and giving it a smooth, finished, lustrous appearance superior to prior games made at far greater cost.

The specification then states:

With these objects in view we have originated a game structure in which we use clear transparent plastic as the transparent top wall of the game, and we further mold the top wall integrally with side and end walls, and ball intercepting elements. The latter here shown include partition walls, scoring pockets and stalls, and obstacle pins, all molded integrally with the top wall in a single molding operation. To complete the toy it is merely necessary to add a bottom wall, and this may be inexpensively made of thin sheet metal appropriately lithographed to add color to the toy, and to provide scoring targets and numbers. Moreover, the bottom may be attached to the main body of the toy inexpensively by using projections on the molded body of the toy as rivets, and the edges of this sheet metal bottom may be housed within a peripheral plastic ledge, thus protecting the user against contact with the sharp edge of the sheet metal, and also avoiding any cheapening of the appearance of the toy which might result from exposure of the sheet metal.

There follows a detailed description of the construction, method of assembly and method of operation of the game, much of the detail being applicable to its preferred form, an example of which was filed as Exhibit 7. This was called Bagatelle and is similar to the game called Bazooka, specifically referred to in the description, an example of which was filed as Exhibit M. It will be sufficient if I set out the description without some of the detail and omitting references to the numbers in the figures accompanying the specification. I have Exhibit 7 before me as I do so:

The game comprises a transparent top wall with which there are integrally molded a remote end wall, a near end wall and side walls. The one piece molded structure is closed at the bottom by means of a bottom plate, which may be made of a single piece of sheet metal stamped to desired configuration with its top face lithographed to provide score indications. The peripheral edge of the molded body is appropriately offset and recessed to receive the metal bottom, the edges of the latter being housed within and concealed by the plastic.

Here I might interject that it is clear that the bottom need not be of sheet metal. That is used in the preferred form of

Exhibit 7 but any sheet material, including cardboard, may be used. I now continue the summarized description:

The top wall has molded integrally therewith a partition wall which separates the left side of the game, which acts as a scoring compartment, from the right side, which acts as a ball storage and ball projecting compartment. At its near end the partition curves leftward and has a branch extending rightward, the latter acting to guide successive balls in front of the ball projector shown here as a plunger.

The top wall has molded integrally therewith a series of scoring pockets. There are additional partition walls formed integrally with both the top wall and the nearer end wall, which act to divide the near end of the game into a series of scoring stalls, in which the balls may be received with appropriate scoring values. All the partitions taper downward, to facilitate the molding operation.

In addition, the top wall is formed integrally with a series of obstacles which deflect the ball to one side or the other as it rolls from the remote toward the near end of the game. These obstacles are essentially round pins. For ease in molding the pins are tapered so that each pin is essentially frustroconical in shape. The pins may be hollowed and molded with a conically shaped opening which passes through the top wall of the toy. This helps insure complete accurate filing of the molding cavity which forms the pin and saves material.

An examination of Exhibit 7 demonstrates this part of the description. I continue with it:

The pins, and also the partitions and pockets, extend downwardly from the top wall towards the bottom and preferably all the way down to the bottom for in that case they help support and stiffen the bottom against upward movement. Moreover, rivets for holding the bottoms may be formed at the lower ends of selected pins and also at selected points on the partitions. The pin as molded includes a cylindrical stud which passes through a mating hole in the bottom and by application of a heated tool the projecting end may be spread or riveted, thereby anchoring the bottom as well as spacing it properly from the top wall. These rivets are most readily formed at the lower ends of the pins. Additional rivets are also formed in the partitions.

The pins thus act as spacers between the top wall and the bottom and the statement that the projecting ends are riveted refers to the process called "swedging". This means that heat is applied to the projection of the plastic pin extending through the mating hole in the bottom which causes it to melt and flatten down so that it acts as a rivet. When that is done the projection is said to be "swedged". Swedging may take place regardless of the composition of the bottom. Thus swedging may be done on a cardboard bottom as well as on a metal one. I now continue the summarized description:

The remote end wall is curved, and in its simplest form is semi-circular, in order to guide a projected ball smoothly around after it has been fired by the ball projector. Despite the curved configuration of the

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wall, the one-piece molded body is extended outwardly beyond the curved wall by areas which are at a lower level immediately adjacent to the bottom wall. These extensions provide room in which to form inverted sockets which detachably receive legs. When the legs are inserted in the sockets the game is supported at an angle to the horizontal.

The specification then gives a detailed description of the ball projector or plunger and its actuating spring, the manner of assembling it with the rest of the game and the manner of its operation, with all of which we are not particularly concerned in this case. There is also a description of some special advantages when a sheet metal bottom is used. Then there is a description of the balls:

The game may be provided with a desired number of balls. They are all permanently sealed inside the game, and therefore inaccessible, and cannot be lost, yet all of them are readily restored to initial firing position by first tilting the board towards the upper right hand corner and then tilting it towards the near end and then towards the left until the balls are aligned along the partition wall. Each time the projector is retracted and let go one ball is fired.

Then there are directions to the effect that the pockets and stalls between the partitions may be given suitable score values and that the lithography on the bottom may be pictorialized. Thus in Exhibit M the firing channel is drawn to resemble a bazooka, which fact gave that game its name. The specification then contains the following statement of the game's advantages:

The game has a rich, lustrous, finished appearance, because almost all of the game structure is made of glass-like transparent plastic. However, the game may be mass produced at low cost because substantially all of the game structure is molded in a single piece, in a single molding operation. The bottom is inexpensively stamped out of sheet metal, appropriately lithographed to add everything that is needed in the way of color illustration and score markings. To assemble the toy the balls and the ball projector with its spring are dropped in position and the bottom added and riveted in place by means of rivets formed integrally with the main molded body. The game is characterized by a smooth dependable operation which is intriguing and challenging to the user. The balls cannot be lost.

Then it is pointed out that changes may be made in the structure without departing from the scope of the invention, as sought to be defined in the claims, and it is pointed out that the term "ball intercepting element" in the claims is intended to be generic to the pins, pockets, stalls, and partitions.

The specification ends with 20 claims and the defendants in their counterclaim put all of them in issue except claims

2, 6, 8, 9 and 10, but, in my opinion, it is not necessary to do more than set out claims 1, 3 and 5. They read as follows:

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1. A game device comprising top and end and side walls molded out of transparent moldable plastic to form a single body which is generally enclosed except at the bottom, a generally opaque bottom made of relatively thin sheet material and having apertures for the reception of rivets, the periphery of said molded plastic body surrounding the bottom to protect the edge of the bottom, and a ball, a plurality of ball intercepting elements molded integrally with said top wall and projecting downwardly from said top wall toward the bottom, the lower ends of some of said ball intercepting elements being shaped to form spacer surfaces and rivets, which rivets project further in the direction away from the top and which rivets pass through said apertures and are headed beneath the sheet material bottom to hold said bottom against said spacer surfaces, said elements which have rivets thereby acting as spacers between the top wall and the bottom of the game device.

3. A game device comprising top and end and side walls molded out of transparent moldable plastic to form a single body which is generally enclosed except at the bottom, a generally opaque bottom made of relatively thin sheet material and having apertures for the reception of rivets, a ball, and a resiliently movable ball projector, a plurality of ball intercepting elements molded integrally with said top wall and projecting downwardly from said top wall toward the bottom, the lower ends of some of said ball intercepting elements being shaped to form spacer surfaces and rivets which rivets project further in the direction away from the top and which rivets pass through said apertures and are headed beneath the sheet material bottom to hold said bottom against said spacer surfaces, said elements which have rivets thereby acting as spacers between the top wall and the bottom of the game device, said ball projector being received upwardly into a part of said molded body and being positioned thereby against upward movement, the part of said molded body receiving said ball projector also bearing sidewardly against the projector and thereby serving to position the same against undesired lateral movement while permitting the desired ball projecting movement, the aforesaid bottom serving to complete the mounting of said ball projector by supporting it from beneath against downward movement.

5. A game device comprising top and end and side walls molded out of transparent plastic to form a single body which is generally enclosed except at the bottom, a generally opaque bottom made of relatively thin sheet material, at least one ball, and a resiliently movable ball projector, the periphery of said molded plastic body surrounding the bottom and being appropriately stepped outwardly to receive the bottom within its periphery and upwardly against its step in order to properly space the bottom from the top wall and in order to protect the edge of the thin sheet material forming the bottom, a plurality of ball intercepting elements molded integrally with said top wall and projecting downwardly from said top wall toward the bottom, said molded body being shaped to form integral rivets which rivets project in the direction away from the top and which rivets pass through mating parts of the sheet material bottom and are headed beneath the bottom in order to hold the same in assembled relation with the body, said ball projector being positioned by a mating part of said molded body against undesired movement while permitting the desired ball projecting movement, one of said ball intercepting elements

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being a wall disposed immediately adjacent to and at an angle leading rearwardly and sidewardly to the ball projector in order to guide and return a ball to the ball projector.

There were several attacks on the validity of the patent. It was conceded that the defendants' game was not anticipated by any prior patent or publication but there was no acknowledgment of its patentable novelty. It was urged, indirectly if not directly, that there was really nothing new about it and resort was had to the evidence of the prior art to support this contention. This may be summarized briefly. Bagatelle or pin-ball games are old. They are staples in the toys business. At first they were open face with wood frames and cardboard or masonite bottoms. The obstructions, styled "intercepting elements" in the claims, were clamped on the bottom. Later, there were metal frames. Then there were enclosed games with wood or metal walls, masonite bottoms and glass tops. The enclosed games had an advantage over the open face ones in that the balls did not get lost but they suffered from the disadvantages that the glass tops were subject to breakage and were dangerous to children. Nor was there anything new about the use of plastics or the processes of injection moulding or swedging. But, notwithstanding these facts, there cannot be any doubt that the defendants' game, as exemplified by Exhibit 7, was new. All that is necessary is to look at it and compare it with anything that existed before. There was certainly no doubt about its novelty in the minds of those who saw the game for the first time at the Toy Show in New York in March, 1952.

Apart from attacks on some of the claims on the ground that they contemplated devices that would not work, there was no attempt to dispute the utility of the defendants' game. I have already referred to Mr. R. Lohr's statement that it was received very enthusiastically at the New York Toy Show and that "it hit the toy industry like a bombshell". The evidence is that it was the first \$1 enclosed plastic bagatelle game and there is no doubt that it had great commercial success. Its utility was proved beyond dispute.

The main attack on the validity of the patent was that the game lacked the essential elements of invention in that it was merely a workshop improvement over the prior art that would be obvious to any person skilled in it and that it did not involve the exercise of any inventive ingenuity

on the part of the alleged inventor. It was contended that the game was not an inventive advance over the prior art or the common knowledge of the persons skilled in it. The submission was that it was essentially the same as the plaintiff's Fire Ball, Exhibit 3, that the pins, obstructions and pockets were similar in each case and their relationship to one another was really the same, that basically the only difference between the two was that Exhibit 3 was moulded from the bottom whereas Exhibit 7 was moulded from the top, that all that the alleged inventor had done was to take the plaintiff's game Fire Ball, turn it upside down and apply a bottom to it, that in reversing the plaintiff's device he merely took advantage of the well-known characteristics of plastics and used the well-known method of injection moulding, that there was nothing inventive about putting a bottom on the game or using the well-known process of swedging the projections of the pins and that the alleged inventor really did nothing more than apply his common knowledge and well-known substances and techniques to the plaintiff's prior device.

I have no hesitation in rejecting the submissions thus put forward on behalf of the plaintiff and finding that there was inventive ingenuity in Mr. Lohr's game. There is a statutory presumption of the validity of the patent under section 47 of *The Patent Act, 1935* from which it follows that the onus of showing its invalidity is on the party attacking it: *Vide The King v. Uhlemann Optical Co.*¹ And in *O'Cedar of Canada Ltd. v. Mallory Hardware Products Ltd.*² I expressed the opinion, which I repeat, that, in view of this statutory presumption, where there has been a substantial and useful advance over the prior art, as is the case here, the Court should not make the onus of showing the invalidity of the patent an easy one to discharge. In my opinion, the plaintiff has not discharged it in the present case.

But quite apart from the statutory presumption of validity I find that in fact the production of Mr. Lohr's game did involve the exercise of inventive ingenuity on his part. The essence of his invention, to put it briefly, was to mould the top wall integrally with the end and side walls and the partitions, pins and pockets in a single moulding of transparent plastic with a separate bottom attached by the pins projecting through holes in the bottom and being headed and

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¹ [1950] Ex. C.R. 142 at 161.² [1956] Ex. C.R. 299 at 318.

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the heads being swedged so as to serve as rivets and fasten the bottom in place to make an enclosed game. The fact that it was easy to put the idea into practice and that all that was needed to do so was to apply well-known techniques to well-known substances does not prevent the embodiment of an idea from patentability if the idea itself involved the exercise of inventive ingenuity. The decision of the Court of Appeal in *Hickton's Patent Syndicate v. Patents and Machine Improvements Company Ltd.*¹ is ample authority for this statement. The simplicity of putting an idea into effect is not an indication that the idea was not inventive or that it would be obvious to a person skilled in the art. And I am satisfied that the fact that Mr. Lohr saw the plaintiff's Fire Ball before he finally produced his invention does not deny his invention. I agree with counsel for the defendants that Mr. Lohr had to regard the Fire Ball game as part of the prior art and that, apart from the statutory presumption of validity, it must appear that his invention would not have been obvious to a person skilled in the art who had seen Fire Ball. In my opinion, there is no doubt that it would not have been obvious to such a person. Mr. Lohr's game overcame the defects of open face games such as Fire Ball and provided an enclosed game that had brilliance, color and lightness without fragility not previously obtainable. Moreover, the idea of the integral moulding from the top and the simplicity of the manner of attaching the bottom resulted in the possibility of an enclosed plastic bagatelle or pin ball game that could be sold at \$1, an idea that had never occurred to any one before Mr. Lohr thought of it and a development that would not have been obvious to any workman in the art even if he had the plaintiff's Fire Ball before him. In my opinion, there is no doubt that the necessary element of invention was present in the defendants' game.

In view of the finding that the defendants' game involved the exercise of inventive ingenuity on the part of the inventor I need not consider the evidence of its commercial success or its effect on the issue of invention and I refrain from doing so.

I now turn to the attacks made on some of the claims in the patent. The most important one was that the term "transparent plastic" as used in some of the claims, as, for

¹(1909) 26 R.P.C. 339.

example, in claim 5, was broad enough to include thermo setting plastic as well as thermo plastic and that, consequently, such claims were too wide in that they purported to cover a plastic, namely thermo setting plastic, that would not work since such a plastic could not be swedged. Dr. W. Gallay was called by the plaintiff in support of this contention. He explained that there were two kinds of polystyrene plastic, commonly described simply as styrene plastic, namely, thermo plastic and thermo setting plastic. And he gave a clear explanation of what is meant by the term "swedging". As he put it, the term "swedging" involved the integral moulding of the components that passed through a mating hole in the second component, followed by the application of heat to the protruding portions of such components so that they flattened out to form heads over the holes in the mating component so that they formed rivets and rendered possible a method of fastening the two components. Dr. Gallay put the distinction between the two kinds of plastic referred to very clearly. Thermo plastic could be remelted with the application of heat and then re-solidified and this process could be repeated indefinitely. But thermo setting plastic could not be remelted once it had hardened, so that if heat was applied to it all that would happen would be that it would decompose and burn. It was an irreversible salt. Consequently, any protusions of plastic, if thermo setting, could not be swedged for they could not be remelted by the application of heat in such a way as to act as rivets and it would not be possible to fasten the two components together. Moreover, thermo setting plastic is moulded by compression and does not lend itself to injection moulding. While it is conceded that a patent is invalid if it extends to material that will not work and the attack on the validity of the patent on the ground put forward seemed, at first, to be a strong one, I have come to the conclusion that a complete answer to the charge of invalidity on this ground was given by Dr. Gallay on his cross-examination. He then said, in answer to a question put by counsel for the defendants, that if he was told that there was a clear transparent plastic that was to have rivets and that the rivets were to be headed his conclusion would be that the plastic referred to would have to be thermo plastic for it was only when the plastic was thermo plastic that it could be headed. I am, therefore, of the view that when

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the claims speak of the pins, that is to say, the projections, as rivets to be headed as several of them, as, for example, claim 5, do, they sufficiently confine the clear transparent plastic that is to be used to thermo plastic and do not extend to thermo setting plastic. This attack on the validity of the claims fails.

Only a brief reference need be made to another attack. It was contended that in some of the claims, as, for example, in claim 1, there was no reference to a ball projector or plunger or activating means and that, consequently, the device covered by it would not work. There are two answers to this. In some of the claims, as, for example, in claim 3, there is a reference to a ball projector so that, even if claim 1 were invalid for failure to include a ball projector, claim 3 could not be attacked on that ground. But it should be noted that claim 1, although it does not specify the use of a ball projector, does not exclude its use. The claim is broad enough to include games or devices in which a ball projector might not be necessary as well as a game in which it was used. The ball projector was not part of what Mr. Lohr invented. This attack on the patent fails.

And I need not deal with the attack on claims 19 and 20 on the ground that they were added after the allowance of the other claims and were broader than any of the allowed claims. In my opinion, this attack also fails.

I consequently find that claims 1, 3 and 5 are valid. This is not to be taken as a finding that the other claims are invalid. It follows from this finding that the plaintiff is not entitled to a declaration that the letters patent are invalid and that the defendants are entitled to a declaration that claims 1, 3 and 5, at any rate, are valid.

I next come to the plaintiff's claim for a declaration of non-infringement and the defendants' counterclaim for a declaration of infringement. I shall deal first with the plaintiff's claim. It was for a declaration that its games "Hook-a-Fish", "Speedway" and "Game Hunt", being games 8A, 8B and 8C, did not infringe the defendants' patent even if it were held to be valid. The claim is confined to a declaration in respect of these games for they were the only ones made by the plaintiff at the date of the commencement of its action, namely, August 24, 1953, that could possibly be said to infringe the patent.

Counsel for the plaintiff contended that these games did not infringe any of the claims of the patent and that even if they did come within their terms the plaintiff was saved from liability for infringement under section 56 of the Act, which reads, in part, as follows:

56. Every person who, before the issuing of a patent has purchased, constructed or acquired any invention for which a patent is afterwards obtained under this Act, shall have the right of using and vending to others the specific article, machine, manufacture or composition of matter patented and so purchased, constructed or acquired before the issue of the patent therefor, without being liable to the patentee or his legal representatives for so doing; . . .

The plaintiff began to market these games on July 18, 1953. This fact was, of course, known to the defendants prior to the letter of August 6, 1953, for two of them were specifically mentioned in it. But it was contended on behalf of the plaintiff that all these games had been made prior to July 14, 1953, the date of the issue of the patent, and that, consequently, it was entitled to the benefit of section 56 of the Act. There is some conflict in the evidence on this point. Mr. A. Samuels, the plaintiff's vice-president, said that about 3,000 dozen of the games were sold in 1953 and when he was asked how many of them would have been made before July 14, 1953, his answer was "2,500 dozen". If his answer was correct the plaintiff would have the benefit of section 56 in respect of the 2,500 dozen games that were made prior to July 14, 1953, but not in respect of the 500 dozen that were made afterwards. But I do not think that this was so. On his re-examination Mr. Samuels said that all the units shipped on July 18, 1953, had been made prior to July 14, 1953. This is, I think, a true statement. Mr. Samuels said of the 2,500 dozen that they would all be made in one run. It is most unlikely that a second run of 500 dozen would be made. In my opinion, the evidence as a whole indicates that all the plaintiff's games 8A, 8B and 8C were made prior to July 14, 1953, and I so find. In view of this finding it may not be necessary to consider whether the games, apart from section 56, infringed the patent. But, if I had to deal with that question I would accept the submission of counsel for the defendants that they do infringe claim 5, notwithstanding the seeming differences in respect of the plunger and the wall on which counsel for the plaintiff relied in support of his contention that the games did not in fact infringe.

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It follows from what I have said that the plaintiff is not entitled to the declaration sought by it that its 8A, 8B and 8C games did not infringe any of the claims in the patent but I see no reason why it should not have a declaration that it is not liable for infringement in respect of the 8A, 8B and 8C games made by it prior to July 14, 1953, and I make such declaration accordingly.

The defendants' counterclaim for a declaration of infringement is on a different footing. It was sought in respect not only of the games 8A, 8B and 8C but also in respect of the games called "Trail Blazer", "Pirate Gold" and "Ambush", being games 9A, 9B and 10. These were all made by the plaintiff subsequently to the date of the issue of the patent and the date of the letter complained of, the first two being marketed on September 1, 1953, and the third on September 12, 1953. In respect of these games the plaintiff is not entitled to any benefit under section 56 of the Act for it does not extend to them. Counsel for the plaintiff did not attempt to argue that these games did not infringe the patent but was content to stand on his contention of invalidity. Without going into detail I have no hesitation in finding that the games do infringe at least claim 1 of the patent. The defendants are entitled to counterclaim for such a declaration and I make it in their favor accordingly. But, in view of my finding with regard to games 8A, 8B and 8C, I do not extend the declaration to them.

There remains only the claim for damages for threats. This was put on three grounds, namely, first, under section 11(1)(a) of *The Unfair Competition Act, 1932*, Statutes of Canada, 1932, Chapter 38, secondly, as an action at common law, and, thirdly, under the Statute of Monopolies, 21 James I, Chapter 3. In his opening counsel for the plaintiff relied particularly on section 11(1)(a) of *The Unfair Competition Act, 1932*. In addition, the statement of claim alleges acts within the ambit of section 11(1)(c).

The plaintiff's claim is a novel one in the sense that there has never been a case in this Court where such a claim has been allowed. That is not to be taken as establishing that a claim for damages for threats can never lie. Whether there are circumstances under which such a claim would lie is a question reserved for consideration in a more appropriate case than the present. Here I have no hesitation in finding that the plaintiff has no cause of action on any of the grounds on which its claim was based.

It was contended that the plaintiff's claim was related to the fact that at the time of the action the only games made by it that could possibly be said to infringe the defendants' patent were the games 8A, 8B and 8C and that the letter of August 6, 1953, should be construed accordingly. Even on that assumption the claim should be dismissed.

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The relevant sections of *The Unfair Competition Act, 1932*, provide as follows:

11. No person shall, in the course of his business,
- (a) make any false statement tending to discredit the wares of a competitor;
 - (c) adopt any other business practice contrary to honest industrial and commercial usage.

The statements in the letter of August 6, 1953, that were said to be false were the statements that the games "Hook-a-Fish" and "Speedway" infringed the defendants' patent, that the patent was valid and that the games listed in the letter were covered by it. I do not agree. Even if it could be argued that the statement that the plaintiff's named games infringed the patent was untrue, in view of the freedom from liability for infringement afforded by section 56 of *The Patent Act, 1935*, that does not make it a *false* statement. And the other statements referred to were true. There was thus no cause of action under section 11(1)(a). Nor was there any support for a claim under section 11(1)(c).

And there was no evidence to support the claim under the Statute of Monopolies even if the Court had jurisdiction to entertain such a claim, a question that need not be determined in this case.

Nor was there any basis for the claim at common law. This has been variously described as a claim for trade libel or slander of title or disparagement of property or, to put it more broadly, injurious falsehood. The elements that are essential to such a cause of action have been variously stated in the cases but I do not think that it would be appropriate, in view of the facts in this case, to attempt now to define the limits of such a claim. To the extent that falsity is an essential element in such a cause of action the plaintiff's claim fails. As I have already stated there is no evidence of falsity in the letter complained of. Nor, in my opinion, was there any evidence of malice. If malice is an essential ingredient of such a cause of action the onus of

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proof of malice lay on the plaintiff and it has failed to discharge it. It was urged that there was recklessness on the part of the second-named defendant in writing the letter and that this amounted to malice on its part. I do not agree. It appeared from the letter that the defendant had been informed of its rights under the patent and the extent of its coverage and there is no evidence to indicate any disbelief on its part that it could enforce its patent rights. It was not shown that the defendant acted otherwise than with an intention to prevent infringement. The fact that the defendant failed to consider that the plaintiff might be saved from liability for infringement in respect of the games made by it prior to the date of the issue of the patent is not sufficient to saddle it with falsity or malice.

It follows that the plaintiff's claim for damages must be dismissed.

In the result the plaintiff's action must be dismissed with costs, except that it is entitled to a declaration that it is not liable for infringement in respect of the games 8A, 8B and 8C made by it prior to July 14, 1953, and that the costs of the action payable by it should be reduced by one-third. So far as the defendants' counterclaim is concerned there will be a declaration that claims 1, 3 and 5 of the patent are valid and that the plaintiff's games "Trail Blazer", "Pirate Gold" and "Ambush" infringe claim 1 and an order that if the parties are not able to agree on the amount of damages there will be a reference to the Registrar or a Deputy Registrar and judgment for the defendants for such amount of damages as shall be found on the reference. The claims for an injunction and for delivery of the articles said to infringe are denied. The defendants are entitled to the costs of the counterclaim.

Judgment accordingly.

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Crown—Petition of Right—Claim for damages for injurious affection of property by operation of airport zoning regulations—Aeronautics Act, R.S.C. 1952, c. 2, ss. 4(1)(j), 4(5), 4(6), 4(7), 4(8), 4(9)—Montreal Airport, Dorval, Zoning Regulations, Order in Council P.C. 1955-268, dated February 23, 1955, ss. 2, 4(1), 4(2), 5—Order in Council P.C. 1955-1973, dated October 19, 1955—Amount of compensation for injurious affection of property measured by decrease in value by enactment of Regulations—Value to the owner—Suppliant entitled to have value and decrease in value determined on basis of most advantageous use—No warrant for additional allowance of 10 per cent—Suppliant not entitled to interest.

The suppliant claimed damages for the injurious affection of its property by the operation of the Montreal Airport, Dorval, Zoning Regulations, enacted on February 23, 1955. The Regulations applied to all lands adjacent to or in the vicinity of the Montreal Airport at Dorval in Quebec and included the suppliant's property which had a frontage on the north side of the Côte de Liesse Road. Section 4(1) of the Regulations imposed height restrictions on buildings, structures or objects on the affected lands and section 4(2) empowered the Minister of Transport to order the removal, demolition or modification of any building, structure or object that exceeded the permitted height limits. Section (5) of the Regulations imposed restrictions on any use of the affected lands that caused or might cause a hazard or obstruction to aircraft using the airport. On October 19, 1955, the Regulations were amended by revoking section 4(2) and section 5. The suppliant's property had a frontage of 581.4 feet on the Côte de Liesse Road and a depth of 1,675.5 feet. At the date of the enactment of the Regulations it was vacant land except for an old farm house building but since then the rear portion of the property was occupied by Kingsway Transport Limited, a wholly owned subsidiary of the suppliant, for a truck transport warehouse and terminal, its buildings being set back about 522 feet from Côte de Liesse Road. The front portion of the property was vacant except for the old farm house building. The suppliant based its claim on section 4(8) of the *Aeronautics Act*.

Held: That the suppliant's right to compensation for the injurious affection of its property by the operation of the Regulations is a statutory one.

2. That the measure of the compensation to which the suppliant is entitled is the amount by which its injuriously affected property was decreased in value by the enactment of the Regulations.
3. That, in order to find such decrease in value, the Court must determine the value of the suppliant's property as it was immediately prior to the enactment of the Regulations.
4. That the onus of proof of such value and decrease in value is on the suppliant.

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5. That the Court must find what increase in the value of the property, if any, occurred after the suppliant became its owner and was attributable to the airport.
6. That there was no such increase in value.
7. That the Court must find the amount, if any, by which the decrease in value suffered by the suppliant by the enactment of the Regulations was reduced by the revocation of sections 4(2) and 5.
8. That the onus of proof of any such reduction rests on the respondent.
9. That the suppliant's right to compensation stems from section 4(8) of the Act and not from the registration of a plan and the measure of the compensation is the decrease in the value of its property by the enactment of the Regulations, not by the registration of a plan.
10. That the value referred to in section 4(8) of the Act is value to the owner and its measure is the amount which a prudent purchaser in a position similar to that of the owner and knowing all the advantages and disadvantages of the property, present and prospective, would, in the ordinary course and without the pressure of urgent need, have been willing to pay for it in order to obtain it. *Pastoral Finance Association, Limited v. The Minister* [1914] A.C. 1083 at 1088 and *The Queen v. Supertest Petroleum Corporation Limited* [1954] Ex. C.R. 105 at 123 applied.
11. That the decrease in value for which the suppliant is entitled to compensation is the difference between the amount which the prudent purchaser referred to would have been willing to pay for the property after the enactment of the regulation and that which he would have been willing to pay for it before its enactment.
12. That the suppliant is entitled to have such value and its decrease determined on the basis of the most advantageous use, whether present or prospective, to which its property could have been put immediately prior to the enactment of the Regulations. *Nichols on Eminent Domain*, 2nd Edition at page 665, applied.
13. That it is only the present value of the prospective advantages of the property that falls to be determined. *The King v. Elgin Realty Company Limited* [1943] S.C.R. 49 applied.
14. That the most advantageous use to which the suppliant could put the rear portion of its property after the enactment of the Regulations was the use to which it actually put it, namely, for the truck transport warehouse and terminal purposes of its wholly owned subsidiary, Kingsway Transports Limited.
15. That the most advantageous use to which the suppliant could put the front portion of its property after the enactment of the Regulations was, and is, a use for a comparatively large light industry and that such use is a better and higher one than that which was possible for the rear portion of the property.
16. That the rear portion of the property had less value than that of the front.
17. That the amount of the compensation to which the suppliant is entitled for the injurious affection of its property by the operation of the Regulations is \$25,000.
18. That the suppliant has failed to prove that it suffered any decrease in the value of its property by the inclusion of section 5 in the Regulation.
19. That there is no warrant for the suppliant's claim for an additional allowance of 10 per cent.

20. That the suppliant is not entitled to interest since there cannot be a valid claim for interest against the Crown unless interest is payable under a contract providing for it or is authorized by statute and neither of these conditions is present.

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The petition was heard by the President of the Court at Montreal.

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T. H. Montgomery and Paul Renault for suppliant.

Norman Genser, Q.C., and Paul Ollivier for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (June 17, 1958) delivered the following judgment:

In its original petition of right, filed on April 8, 1957, the suppliant claimed damages in the amount of \$160,000.50 for the injurious affection of its property, described in paragraph 1 of the petition, by the operation of the Montreal Airport, Dorval, Zoning Regulations, hereinafter simply called the Regulations, but in its amended petition, filed on May 9, 1958, it increased its claim to \$266,667.50.

In a sense, this is a test case in that there are about sixty other claims for damages for injurious affection of property by the operation of the Regulations.

The Regulations were enacted by Order in Council, P.C. 1955-268, dated February 23, 1955, under the authority of section 4(1)(j) of the *Aeronautics Act*, R.S.C. 1952, Chapter 2, as amended by Chapter 302, which provides as follows:

4. (1) Subject to the approval of the Governor in Council, the Minister may make regulations to control and regulate air navigation over Canada and the territorial waters of Canada and the conditions under which aircraft registered in Canada may be operated over the high seas or any territory not within Canada, and, without restricting the generality of the foregoing, may make regulations with respect to

- (j) the height, use and location of buildings, structures and objects, including objects of natural growth, situated on lands adjacent to or in the vicinity of airports, for purposes relating to navigation of aircraft and use and operation of airports, and including, for such purposes, regulations restricting, regulating or prohibiting the doing of anything or the suffering of anything to be done on any such lands, or the construction or use of any such building, structure or object.

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The Regulations applied to all lands adjacent to or in the vicinity of the Montreal Airport at Dorval in Quebec, including public road allowances, as particularly described in the Schedule to them, which Schedule included the suppliant's property.

Section 4 of the Regulations imposed height restrictions on the affected lands in the following terms:

4. (1) No person shall erect or construct, on any land to which these regulations apply, any building, structure or object or any addition to any existing building, structure or object the highest point of which exceeds in elevation the elevation at that point of such of the surfaces hereinafter described as projects immediately over and above the surface of the land upon which such building, structure or object is located, namely:

- (a) A horizontal surface, the outer limit of which may be described as follows: [here there is a lengthy description with which we are not in this case concerned];
- (b) The approach surfaces abutting each end of the strip designated as 6L-24R, the strip designated as 10-28, the proposed strip designated as 6R-24L and the proposed strip designated as 15-33 and extending outward therefrom, the dimensions of which approach surfaces are 600 feet on each side of the centre line of the strip at the strip ends and 2,000 feet on each side of the projected centre line of the strip at the outer ends, the said outer ends being 200 feet above the elevations at the strip ends and measured horizontally, 10,000 feet from the strip ends; and
- (c) The several transitional surfaces, each rising at an angle determined on the basis of a ratio of one foot vertically for every seven feet measured horizontally from the outer lateral limits of the strips and their abutting surfaces;

as shown on plan No. M.0655 A-B-C dated November 19, 1954 of record in the Department of Transport at Ottawa.

(2) Where any building, structure or object on any land to which these regulations apply exceeds the limits in elevation specified in subsection (1) the Minister may order the owner or occupier of the land to remove, demolish or modify such building, structure or object or do any act or thing necessary to ensure that such building, structure or object complies with the limits in elevation so specified and may, in any such order, specify the time within which such removal, demolition, modification, act or thing shall be done.

Section 5 of the Regulations imposed what may be called use restrictions on the lands affected, in the following terms:

5. No person shall operate or cause to be operated on any lands to which these regulations apply any machine, device, contrivance or thing after being notified by the Minister that, in the opinion of the Minister, the machine, device, contrivance or thing causes or is likely to cause, by the emission of light, smoke, noise or fumes, a hazard or obstruction to aircraft using the airport.

The Minister referred to in the Regulations is the Minister of Transport.

Section 2 of the Regulations defined certain of the terms used in them as follows:

- (d) "horizontal surface" means an imaginary horizontal plane centering on and located 150 feet above the assigned elevation of the airport reference point;
- (b) "airport reference point" means the point fixed by these regulations as the centre of the airport, the assigned elevation of which is deemed, for the purposes of these regulations, to be 104 feet above sea level (m. s. l.);
- (c) "approach surface" means an imaginary inclined plane the lower end of which is a horizontal line at right angles to the centre of the strip and passing through a point at the strip end on the centre line of the strip;
- (f) "strip" means a rectangular portion of the landing area of the airport, 1,200 feet in width, including the runway, especially prepared for the take-off and landing of aircraft in a particular direction;
- (g) "transitional surface" means an imaginary inclined plane extending upward and outward from the outer lateral limits of the strip and its approach surfaces to an intersection with the horizontal surface or other transitional surfaces.

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Thus it is clear that the imaginary plane of a transitional surface is inclined upward much more steeply than that of an approach surface, for the permissible heights under the former rise from the side of the strip at the rate of one foot for every seven feet measured horizontally whereas those under the latter rise from the end of the strip at the rate of one foot for every 50 feet measured horizontally.

A plan and description of the lands affected by the Regulations, including the suppliant's property, was signed and deposited in the Registry Office for the Registration Division of Montreal on April 13, 1955, as required by section 4(6) of the Act and a copy of the Regulations was deposited with the said plan and description. Moreover, a copy of the Regulations was published, as required by section 4(5) of the Act, in the *Montreal Star* and *La Presse* in the respective issues of these papers of May 17, 1955, and May 18, 1955.

Subsequently, by Order in Council P.C. 1955-1978, dated October 19, 1955, the Regulations were amended by revoking subsection (2) of section 4 and section 5 thereof and a copy of the said amendment was deposited in the Registry Office for the Registration Division of Montreal on May 13, 1957, pursuant to section 4(7) of the Act. And a copy of the amendment was published in the March 12, 1956, and March 13, 1956, issues of the *Montreal Star* and the *Montreal Gazette* respectively.

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The suppliant bases its claim on section 4(8) of the Act which provides:

4. (8) Every person whose property is injuriously affected by the operation of a zoning regulation is entitled to recover from Her Majesty, as compensation, the amount, if any, by which the property was decreased in value by the enactment of the regulation, minus an amount equal to any increase in the value of the property that occurred after the claimant became the owner thereof and is attributable to the airport.

The suppliant's right to compensation is a statutory one under section 4(8) of the Act. It is for the injurious affection of its property by the operation of the Regulations and the measure of the compensation to which it is entitled is the amount by which its injuriously affected property was decreased in value by the enactment of the Regulations. Thus the essential finding that the Court must make is the amount of such decrease in value. In order to do so the Court must determine the value of the suppliant's property as it was immediately prior to the enactment of the Regulations, that is to say, immediately prior to February 23, 1955. The onus of proof of such value and decrease in value is on the suppliant. The Court must also find what increase in the value of the property, if any, occurred after the suppliant became its owner and was attributable to the airport. It is not necessary in this case to express any opinion on whether the onus of proof of this fact rests on the suppliant or on the respondent for the evidence is overwhelming that there was no increase in the value of the property that was attributable to the airport. Indeed, the reverse is true. It is also incumbent on the Court to find the amount, if any, by which the decrease in value suffered by the suppliant by the enactment of the Regulations was reduced by the revocation of section 4(2) and 5. The onus of proof of any such reduction rests, I think, on the respondent.

On the opening of the trial, after the filing of certain documents, counsel for the suppliant brought to the attention of the Court that the plan, described in the Regulations as No. M-0655 A-B-C, dated November 19, 1954, which had been deposited in the Registry Office for the Registration Division of Montreal on April 13, 1955, was in error in that it did not show the full extent to which the suppliant's property was affected by the transitional surface height restrictions due to the proposed runway 6R-24L, immediately to the north of its property, and that it was not until

sometime in November, 1957, that the error was brought to his attention by the Department of Transport. Counsel then received photostatic copies of two sketches, dated November 5, 1957, one showing the error and the other the correction. The correction showed that the area of the suppliant's property that was affected by the transitional surface height restrictions was substantially larger than that shown on the deposited plan. On the strength of this the suppliant obtained leave to amend its petition of right and pursuant thereto increased its claim as already stated. Counsel stated that he had obtained an undertaking from the Department of Transport that a corrected plan would be registered but up to the date of the trial it had not been. Counsel for the respondent did, however, file a plan as Exhibit D4, correctly showing the area affected by the said transitional surface height restrictions.

On the strength of these facts counsel for the suppliant contended that the deposit of a correct plan was an essential pre-requisite condition of the applicability of the Regulation and submitted that since the plan that was filed on April 13, 1955, was not correct the suppliant's right to compensation should not be confined to the decrease in the value of its property as at that date but should be determined as at the date of the filing of a correct plan. In my opinion, there is no substance in the submission thus put forward and I dismissed it. If counsel's contention is correct it must follow that the suppliant's right to compensation has not yet accrued to it since a correct plan has not yet been registered. It would also follow that the Department of Transport could indefinitely delay the accrual of the suppliant's right by not depositing the plan. It is obvious that such an absurd result could not have been intended by the legislation by which the right to compensation was conferred. The suppliant's right stems, as I have already stated, from section 4(8) of the Act, under which it has a right to compensation if its property was injuriously affected by the operation of the Regulations, not by the registration of a plan, and the measure of the compensation is the decrease in the value of its property by the enactment of the Regulations, not by the registration of a plan. The purpose of requiring the deposit of the plan and description of the lands affected by the zoning regulation and a copy of the regulation, pursuant to sections 4(6) and 4(7) of the Act,

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apart from that of giving notice of the Regulations to the public, is to fix the commencement of the two-year period of prescription enacted by section 4(9). It followed from my dismissal of counsel's contention that evidence of the value of the suppliant's property as at a date subsequent to that of the enactment of the Regulations, such as at November, 1957, or later, should be excluded and I so ruled.

The value referred to in section 4(8) of the Act is, I think, value to the owner. Its measure is the amount which a prudent purchaser in a position similar to that of the owner and knowing all the advantages and disadvantages of the property, present and prospective, would, in the ordinary course and without the pressure of urgent need, have been willing to pay for it in order to obtain it. This is essentially the test laid down by Lord Moulton in *Pastoral Finance Association, Limited v. The Minister*¹ as I sought to show in *The Queen v. Supertest Petroleum Corporation Limited*². Later in that case I expressed my view of what was essentially implied in the sentence in Lord Moulton's judgment that is so often cited by itself. At page 131, I said:

As I read Lord Moulton's judgment it envisages negotiations between the owner of the property and the prudent man referred to, who is a purchaser, each knowing the advantages of the property and the possibilities of savings and profits from its use, culminating in a sale of it to the prudent purchaser at the price beyond which, in the ordinary course and without the pressure of urgent need, he would not be willing to go.

It is for the decrease of such value by the enactment of a zoning regulation that the owner of property injuriously affected by its operation is entitled to compensation under section 4(8) of the Act. Put in other terms, the decrease in value for which he is entitled to compensation is the difference between the amount which the prudent purchaser referred to would have been willing to pay for the property after the enactment of the regulation and that which he would have been willing to pay for it before its enactment.

And it is axiomatic that the suppliant is entitled to have such value and its decrease determined on the basis of the most advantageous use, whether present or prospective, to which its property could have been put immediately prior to the enactment of the Regulations. It is also clear that in determining such most advantageous use the Court must not limit itself to the actual use to which the owner has put his property. It is the most advantageous use to which it could

¹ [1914] A.C. 1083 at 1088.

² [1954] Ex. C.R. 105 at 123.

have been put that is to be considered. In my opinion, the best statement of the applicable principle was made in *Nichols on Eminent Domain*, 2nd Edition at page 665, where the author said:

In determining the market value of a piece of real estate for the purpose of a taking by eminent domain, it is not merely the value of the property for the use to which it has been applied by the owner that should be taken into consideration, but the possibility of its use for all purposes present and prospective, for which it is adapted and to which it might in reason be applied, must be considered, and its value for the use to which men of prudence and wisdom and having adequate means would devote the property if owned by them must be taken as the ultimate test.

While this statement was expressly applicable to the determination of market value for the purpose of a taking by eminent domain I consider it equally applicable to the determination of the value and decrease of value referred to in section 4(8) of the Act and I so find. But it must always be remembered, as the Supreme Court of Canada pointed out in *The King v. Elgin Realty Company Limited*¹, that it is only the present value of the prospective advantages to the property that falls to be determined. Thus, in the present case it is only the present value of the prospective advantages of the suppliant's property as at immediately prior to February 23, 1955, that is to be determined. It is sufficient for the time being to state the applicable principle generally. I shall discuss its application to the present case when I come to consideration of the decrease in the value of the suppliant's property by the enactment of the Regulations.

The suppliant's property is part of Lot 522 on the Official Plan and in the Book of Reference of the Parish of St. Laurent, now part of the City of Dorval. It has a frontage of 581.4 feet on Côte de Liesse Road, a width at the rear along the boundary of the Dorval Airport of 579.4 feet and a depth of 1,675.5 feet on its west side and 1,690.4 feet on its east side. Its total area is 976,717 square feet or 26.54 arpents. At the date of the enactment of the Regulations the property was vacant land except for an old farm-house building facing Côte de Liesse Road, which building is admittedly valueless. Since then the rear portion of the property has been occupied by Kingsway Transports Limited, a wholly owned subsidiary of the suppliant, for a truck

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transport warehouse and terminal and the necessary buildings for such use were constructed in 1957. The buildings nearest Côte de Liesse Road were set back at a distance of approximately 522 feet from it. There is also a driveway of 50 feet in width from Côte de Liesse Road to the rear portion for the use of Kingsway Transports Limited. The front portion of the property is still vacant land except for the old farm-house building referred to.

Opinion evidence of the value of the suppliant's property as at immediately prior to February 23, 1955, was given by Mr. R. A. Patterson for the suppliant and by Mr. R. Davis, Mr. J. A. Lowden and Mr. Jean Beique for the respondent but before I deal with their appraisals I should set out a description of the area in which the property is located and outline the course of its development. The area may be called the Côte de Liesse Road Industrial District. This road is a well-paved four-lane highway running from the Dorval Circle of the Metropolitan Boulevard to the west to the Decarie Boulevard Circle to the east. The suppliant's property is slightly less than four miles from the Decarie Boulevard Circle and slightly less than two miles from the entrance to Dorval Airport which is just a short distance east of the Dorval Circle.

The Côte de Liesse Road Industrial District is really in two sections. The older one is near Decarie Boulevard in the Ville St. Laurent district. This had transportation, water and sewer services but during the war years its development proceeded slowly. After 1947 it went rapidly and spread westward along Côte de Liesse Road to what became the newer section of the industrial district. One of the outstanding figures in this development was Alexis Nihon who envisaged the possibilities of the western section of the Côte de Liesse Road area as early as 1946. The Road was in the very centre of the Island of Montreal and he considered that the area was a natural one for industrial expansion. His exploits are a dramatic exemplification of foresight of the tremendous boom in real estate values of properties fronting on Côte de Liesse Road that has occurred. About 1950 the speculation in real estate, the value of which Mr. Nihon had foreseen as early as 1946, spread to others who began to buy farm properties with frontages on Côte de Liesse Road at prices that must have seemed fabulous to the farmers that sold them. The increases in value that

have since taken place are almost beyond belief. The western section of the district became, in effect, a newer industrial district for light industries seeking large areas of land that was less expensive than that of land in the Ville St. Laurent district near Decarie Boulevard. The south side of Côte de Liesse Road has developed more rapidly than the north because of the availability there of C.N.R. and C.P.R. siding facilities but many industries have located on the north side. This newer industrial district is still in its initial stage of development for most of the land is still in agricultural use. There are no transportation, water or sewer services so that the development has been limited to industries that could function with well water and septic tanks. Such industries have not allowed the lack of services or the nearness of the Airport to deter them. They have met the lack of transportation services by operating their own bus services for their employees. They have overcome the lack of water services by sinking their own artesian wells, the supply of water in the area being excellent, and have filled the deficiencies of lack of sewers by the use of septic tanks and their drainage accessories. Progress in the development of the newer district has not been allowed to be held back by the slowness of provision of municipal services. There has been a realization that these will come and, in the opinion of one of the experts, they may be expected in five or ten years. One of the outstanding illustrations of the development of the district, that has not waited for municipal services, is that afforded by Industrial Glass Company Limited, of which Alexis Nihon is the real owner. It bought lands in the district from farmers, constructed buildings on them, either on specifications supplied by a prospective tenant or speculatively, and rented them but did not sell the land on which they had been built. Some of its properties are on the north side of Côte de Liesse Road but others are on the south side and relatively far removed from the effect of the height restrictions of the Regulations. The length of the newer industrial district thus described extends from the entrance to Dorval Airport on the west to a short distance east of Montée de Liesse Road on the east.

Mr. Patterson considered this newer industrial district eminently suited to the location of light industries requiring a comparatively large area of land. Use for such an industry was, in his opinion, the most advantageous use to

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which the suppliant's property could have been put at the date of the enactment of the Regulations. Mr. Davis also agreed that the highest and best use of property in the newer district fronting on Côte de Liesse Road was a use for industrial purposes. And Mr. Lowden and Mr. Beique had similar opinions.

Before I refer to the specific appraisals of the experts I should set out briefly the suppliant's dealings with the property. It purchased the whole of Lot 522 less the portion thereof that had been sold for the widening of Côte de Liesse Road from Hector Groulx on March 4, 1952, for \$130,000 cash. The total area of the farm thus purchased was 75.75 arpents, the price working out at \$1,733 per arpent, an arpent being 36,801 square feet. Subsequently, on January 7, 1954, the northern portion of the property, amounting to 49.21 arpents, was expropriated for the purposes of Dorval Airport and the Crown paid compensation to the suppliant for the portion so taken in the amount of \$271,686, which worked out at \$5,520 per arpent. This left the suppliant with the remainder of the lot as already described, with its area of 976,717 square feet, or 26.54 arpents.

I now come to the appraisals of the experts. [Here the President reviewed the appraisals of the experts of the value of the property immediately prior to the enactment of the Regulations and continued.] I was impressed with the careful studies made by Mr. Patterson and Mr. Davis. I take the higher valuation of the two and find as a fact that immediately prior to the enactment of the Regulations the value of the suppliant's property was \$346,640.

But, of course, this finding of value is not the basically important one. What the Court must determine is the amount of the decrease in such value by the enactment of the Regulations. Its determination of that issue involves consideration of whether there has been any change in or lessening of the most advantageous use to which the property could have been put after the enactment of the Regulations, that could properly be said to be due to them. But, while the Court in dealing with this problem, which is not free from difficulty, must not confine its consideration to the use to which the property was actually put, it may properly consider such use, for it may well be that the use to which it was actually put was in fact its most advantageous use.

Thus, in the present case, the Court must not close its eyes to the purpose for which the suppliant acquired the property and the use to which it was put after the enactment of the Regulations. It would be unrealistic to assume that a large corporation, such as the suppliant, purchased the property, and used it, after the Regulations came into effect, for a purpose less advantageous than that to which it could have been put. It is essential to look at the facts in the clear light of reality.

At this stage, it would be appropriate to review the evidence of Mr. J. G. Wyllie, the suppliant's vice-president, and Mr. B. Perry, a prominent and capable civil engineer, both called as witnesses for the suppliant.

Mr. Wyllie's evidence was clear cut and conclusive. He stated that the suppliant had purchased the property in order to provide space for a truck transport terminal and warehouse for Kingsway Transports Limited, its wholly owned subsidiary. It did not think that all the property would be required for its intended purpose, but it was one farm property and the suppliant purchased it as such, notwithstanding the fact that it was much too large for use for a truck transport warehouse and terminal. The suppliant had only shortly previously bought 17 acres in Toronto for a similar purpose, of which it occupied only six acres, so that it knew that some of the property purchased by it would be available for future disposition after adequate provision had been made for the needs of its transport subsidiary. According to Mr. Wyllie, the property was eminently suitable for the needs of the subsidiary, the greater portion of its business being west of Montreal as far as Sarnia with a border crossing at Windsor. It also operates southward to New York and eastward to Sherbrooke and Quebec. It is significant that the enactment of the Regulations did not affect the suppliant's execution of its intended purpose. Knowing that it had plenty of land available after making provision for the needs of its subsidiary, the suppliant gave instructions to place the buildings and installations required for the use of its subsidiary as far to the rear of the property as possible in order to leave the area fronting on Côte de Liesse Road available for subsequent sale. This part of the property has never been listed for sale but has been kept for investment purposes for sale at an

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appropriate time. The Montreal plant of Kingsway Transports Limited is larger than its Toronto one, there being 24 bays in the former as against 20 in the latter. Even so, there is plenty of room for expansion in the rear portion of the property that has been assigned to its use.

Evidence of the actual use to which the suppliant put the rear portion of its property, pursuant to its intention for such use, was given by Mr. B. Perry, a consulting civil engineer, who was responsible for the construction of the buildings and installations of Kingsway Transports Limited. He did their planning and designing and supervised their construction. The plans were completed in 1956 and the buildings constructed in 1957. At the time of their planning and construction Mr. Perry knew of the height restrictions under the approach surface affecting the property but had no knowledge of the transitional surface height restrictions. His instructions, with which he agreed, were that the buildings and installations should be placed as far to the rear of the property as possible after due allowance for the future expansion of the subsidiary's activities. Thus, the buildings now on the property were put at their present locations in accordance with the suppliant's specific instructions. Mr. Perry put the suppliant's purpose in connection with the property graphically, and realistically, when he said that it had used the least desirable portion of its property, namely, the rear portion, for the truck transport warehouse and terminal purposes of its subsidiary, and had reserved the much more desirable front portion facing on Côte de Liesse Road for a better and higher use. The buildings of the subsidiary nearest Côte de Liesse Road are, as I have already stated, 522 feet back from it, thus leaving a substantial area in the front portion of the property.

It is thus manifestly clear that the suppliant had two separate and distinct purposes in mind for the use of its property, one being the use of the rear portion for the purposes of its subsidiary and the other the use of the front portion for a more advantageous use in the future, albeit a speculative one that has not yet been put into effect.

In the light of these undisputed facts it would be proper to conclude, either that the use to which the suppliant has thus far put its property is illustrative of the most advantageous use to which it could be put after the enactment of

the Regulations, or that in determining its most advantageous use the property should be regarded as consisting of two portions, notwithstanding the fact that there has not been any actual division of it, namely, the rear portion on which the suppliant's subsidiary has located its buildings and installations for its truck transport warehouse and terminal, and the front portion facing on Côte de Liesse Road which it has kept as an investment for disposition in the future for a better and more advantageous use than that for which it has used the rear portion. I have no hesitation in saying that the second alternative conclusion is the one that should be made and I make it. Indeed, I find it difficult to think of a more advantageous use of the rear portion of the suppliant's property than that to which the suppliant actually put it, with full knowledge, actual or imputed by law, of the Regulations. It was amply adequate for the needs of its subsidiary, there was access to it from Côte de Liesse Road by a road specifically constructed for the purpose, and it was conveniently located for the activities of the subsidiary, westward, southward and eastward. I, therefore, find as a fact that the most advantageous use to which the suppliant could put the rear portion of its property after the enactment of the Regulations was the use to which it actually put it, namely, for the truck transport warehouse and terminal purposes of its wholly owned subsidiary, Kingsway Transports Limited. And I find also that the most advantageous use to which the suppliant could put the front portion of its property after the enactment of the Regulations was, and is, a use for a comparatively large light industry and that such use is a better and higher one than that which was possible for the rear portion of the property. The suppliant has, therefore, been wise in reserving the front portion for investment and sale in the future, and there is every likelihood that its decision will result in a substantial profit to it consonant with that which it has already made from its original purchase in 1952.

It must follow from what I have found that the rear portion of the property had less value than that of the front. This fact was recognized by Mr. Davis in his appraisal, when he found the value of the front portion of the property to a depth of 1,000 feet to be 46 cents per square foot and that of the rear portion 20 cents. Mr. Lowden and Mr.

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Beique found the respective values to be 42 cents and 23 cents. And on his cross-examination, Mr. Patterson admitted that if the property was to be regarded as being in two portions, as I have found proper, the value of the front portion was higher than that of the rear. That is obvious. When pressed for a specific figure he put the value of the front half of the property at 50 cents per square foot from which it would follow that the value of the rear half would be not more than 20 cents per square foot, since the whole property was valued at 35 cents per square foot and it is a principle well recognized by real estate appraisers, and admitted by Mr. Patterson, that the value of such a property as the one in question as a whole is greater than the total of the values of its separate halves. On Mr. Patterson's re-examination, counsel for the suppliant sought strenuously, but unsuccessfully, to rescue him from his valuation of the front half of the property at 50 cents per square foot. In my opinion, it is an eminently proper one. It is consistent with the realistic opinion of Mr. Perry and that implied by Mr. Wyllie. But it would not be proper to extend it to too great a depth. While Mr. Patterson put it for the front half of the property it is plain that he had in mind that portion of it that had not been used for the purposes of Kingsway Transports Limited but had been reserved for investment purposes and subsequent sale. Thus, I think that it would be fair to assign his 50 cents per square foot value to the front portion of the property to a depth of 500 feet, being approximately the depth of the property not used by Kingsway Transports Limited. And Mr. Davis' valuation of the front portion to a depth of 1,000 feet at 46 cents per square foot must be adjusted upward accordingly for the front portion to a depth of 500 feet. This appraisal of the front portion of the property to a depth of 500 feet results in a valuation of it for a total area of 289,700 square feet at 50 cents per square foot, or \$144,850. If this amount is deducted from the value of \$346,640, which I have found to be the value of the property as a whole as at immediately prior to February 23, 1955, there remains a valuation of \$201,790 for the rear portion of the property, which for the area of 687,017 square feet works out at a little more than 29 cents per square foot as the value of the rear portion actually assigned to and used by

the suppliant's subsidiary. I find as facts these valuations of 50 cents per square foot for the front portion of the property to a depth of 500 feet and 29 cents per square foot for the remaining rear portion. These valuations are, of course, only approximations and are not controlling, for what the Court must determine is the decrease in value and the determination of such decrease must depend, in some measure at least, on the extent to which the respective portions of the suppliant's property have been injuriously affected by the operation of the Regulations.

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If there was any injurious affection of the suppliant's property by the operation of the Regulations it could only be by reason of the height restrictions imposed on it under the approach surface plane from the end of the runway designated as 10-28, or the height restrictions imposed under the transitional surface plane from the side of the projected runway 6R-24L running parallel with, and immediately adjacent to, the north boundary of the property, which is the south boundary of the airport, or the prohibitions of use set out in section 5 of the Regulations.

The approach surface height restrictions and the transitional surface height restrictions are shown on a plan filed as Exhibit P33, and also on plans filed as Exhibits P32, P34 and D5, which latter three exhibits show the location of the buildings erected by Kingsway Transports Limited. From these exhibits it can be computed that the end of runway 10-28 is approximately half a mile distant from the point where the approach surface height restrictions first affect the suppliant's property and the exhibits show that the heights under such surface permitted by the Regulations run from a little less than 57 feet to a little more than 77 feet at the Côte de Liesse Road frontage, the permissible heights rising, as already stated, one foot for each fifty feet of horizontal distance. But the transitional surface height restrictions affect the rear portion of the property much more sharply, but for a more limited area, the permissible heights running from zero at the north boundary of the property and rising one foot for each seven feet measured horizontally.

And it is plain from what I have held that the effect of the height restrictions must be considered in respect of the

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front and rear portions of the property and the extent to which such portions are respectively affected by them.

I now come to the appraisal by the experts of the decrease in the value of the suppliant's property by the enactment of the Regulations. Here they found themselves in a field of considerable uncertainty, without the assistance that had guided them in estimating the value of the property as at immediately prior to the date of the Regulations.

[Here the President reviewed the appraisals of the experts of the decrease in the value of the suppliant's property by the enactment of the Regulations and continued.]

It seems to me that the evidence in this case clearly points to the conclusion that the front portion of the suppliant's property which it has reserved for disposition has not been injuriously affected to any substantial extent by the operation of the Regulations. The only extent to be considered is the possible effect which the approach surface height restrictions in preventing the erection of certain high structures might have on the value of the front portion of the property.

The evidence also establishes that the only part of the suppliant's property that could really be said to have been injuriously affected by the operation of the Regulations, within the meaning of section 4(8) of the Act, was the rear portion which was used for the purposes of the suppliant's subsidiary. And it is only the property at the very north end of this portion that was affected. It consists of the area subject to the transitional surface height restrictions running from zero to 17 feet. It amounts to 72,629 square feet. Mr. Davis took the position that since this area was rendered valueless for the purposes of the suppliant's subsidiary an equivalent area would have to be found out of the front portion and he valued such equivalent area at 46 cents per square foot. I am unable to accept this estimate. I do not believe that the suppliant would be likely to take such an area out of the front portion of its property, which it has reserved for investment purposes and sale, and add it to the rear portion which it has assigned for the use of its subsidiary, a portion that is already very large and affords plenty of space for the expansion of the subsidiary's activities in the future. The Regulations had been in effect for a long time before the suppliant completed its

plans for the location of the subsidiary's buildings and installations and I doubt whether it would have made any change in them even if Mr. Perry had known of the transitional surface height restrictions and their effect.

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It is not easy to determine what decrease in the value of the area has resulted from the Regulations. Up to the moment the suppliant has not suffered any actual loss. The area in question is part of a larger area that is behind a fence constructed by the subsidiary to enclose its buildings and installations so that it is not now being used for any purpose. The only loss to the suppliant is the loss of the usability of the area for the expansion of its subsidiary's activities if and when the time for expansion comes. This is a matter for the future. Under the circumstances, it would, I think, be ample compensation to the suppliant for the decrease in the value of this area to determine its compensation at the rate per square foot which I have found as the value of the rear portion of the property. Consequently, I fix the amount of the compensation at 29 cents per square foot for 72,629 square feet, or a total of \$21,062.41.

As for the remainder of the property I am unable to see anything in the Regulations that would impede its development for any purpose for which it would be likely to be used or result in a decrease in its value except the possible effect of the approach surface height restrictions in preventing the erection of high chimneys and other high structures. For this it would be ample to award a small amount. If it were computed at, say, two per cent of the value of the front portion of the property at the rate of 50 cents per square foot, putting its depth at 500 feet and its width at 530 feet, after allowing 50 feet for the road to the subsidiary's location, making an area of 265,000 square feet, the amount would be \$2,650.

The two amounts thus fixed come to \$23,672, but I put the total in round figures at \$25,000 and fix this as the amount of the compensation to which the suppliant is entitled under section 4(8) of the Act for the injurious affection of its property by the operation of the Regulations. In my judgment, there is no warrant in the evidence, including the opinions of the experts, for any larger amount.

I have not added any amount specifically in respect of section 5 of the Regulations. It is one section of the zoning

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regulation applicable in this case and I see no reason for attempting to assess any separate effect from its inclusion. And, whether that is a correct view or not, I have no hesitation in finding that in the present case the suppliant has wholly failed to prove that it suffered any decrease in the value of its property by the inclusion of section 5 in the Regulations. Mr. Patterson estimated a reduction in value of $2\frac{1}{2}$ per cent per year on the assumption that the section was in effect from April 13, 1955, to May 13, 1957, the respective dates of the registrations of the original Regulations and the amendment by which section 5 was rescinded, whereas the fact is that it was in effect only from February 23, 1955 to October 19, 1955. This would substantially reduce Mr. Patterson's estimate of \$15,320. But there was no warrant in the evidence for any amount. Moreover, it is difficult to see how section 5 could have reduced the value of the suppliant's property in view of Mr. Patterson's admission that the Regulations were not well known. Moreover, it could not in any way affect the value of the rear portion. It is interesting to note also that Mr. Fitzsimmons did not even mention section 5 in his appraisal report. In his evidence he put a reduction of 10 per cent in value for the effect of the section, without any evidence to support it, and then said that this reduction was eliminated when the section was rescinded. There was thus, in my opinion, no evidence adduced for the suppliant to warrant any finding of a decrease in the value of the suppliant's property by the inclusion of section 5 in the Regulations.

And the opinions of the experts called for the respondent were to the same effect. Mr. Davis said that there was no evidence in any sales that would indicate any decrease in the value of the property by the inclusion of section 5 and there was no indication that its presence had any deterring effect on prospective purchasers. He did not think that there had been any decrease in the value of the suppliant's property by the section.

And Mr. Lowden, in his appraisal filed as Exhibit D21, concluded that there was no justification for ascribing any decrease in the value of the suppliant's property by the enactment of section 5 of the Regulations.

Consequently, I am unable to discover any basis on which to make any award of compensation because of section 5 of the Regulations and I do not make any.

There are only a few other comments. One is that it was conclusively proved that there was no increase in the value of the suppliant's property that occurred after the suppliant became the owner of it that was attributable to the airport. Indeed, the contrary was established. The nearness of the airport was a definite disadvantage.

The suppliant claimed an additional allowance of 10 per cent but there is no warrant for any such allowance in a case of this kind.

Nor is the suppliant entitled to interest, for it is an established rule that there cannot be a valid claim for interest against the Crown unless interest is payable under a contract providing for it or is authorized by statute. Neither of these conditions is present here.

The suppliant is, of course, entitled to its costs.

There will, therefore, be judgment in favor of the suppliant declaring that the amount of compensation to which it is entitled is the sum of \$25,000 and that it is entitled to costs to be taxed in the usual way.

Judgment accordingly.

N.B. The judgment herein was affirmed by the Supreme Court of Canada, (June 6, 1963, unreported).

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BETWEEN:

Mar. 17-20,
24-25

IMPERIAL OIL LIMITED APPELLANT;

Dec. 24

AND

THE MINISTER OF NATIONAL }
REVENUE } RESPONDENT.

Revenue—Income tax—The Income Tax Act, S. of C. 1948, c. 52, ss. 11(1)(b), 11(1)(f), 12(1)(a), 12(1)(b), 12(1)(h), 106—Income Tax and Income War Tax Amendment Act, S. of C. 1949, 2nd Sess., c. 25, s. 53, as amended by S. of C. 1950, c. 40—The Income Tax Regulations, as amended by Order in Council P.C. 4443, dated August 29, 1951, ss. 1200, 1201—Deductible allowance in respect of oil or gas well—Computation of base for deductible allowance on individual producing well basis—Aggregate of losses to be deducted from aggregate of profits—Subsections (1) and (5) of section 1201 of Regulations to be read together—Subsection (4) intra vires—Deduction under subsection (5) limited to amount of expenditures reasonably attributable to production of oil or gas from well.

The appellant is engaged in the production of oil and gas, the marketing of petroleum products and other related activities. In 1951, it carried on an extensive programme for the exploration and development of oil and gas wells. In computing its income for that year it claimed that the amount of the deductible allowance to which it was entitled under section 11(1)(b) of *The Income Tax Act, 1948* and section 1201 of *The Income Tax Regulations* was \$13,023,666.59, being 33½ per cent of \$39,070,999.79, the amount of its profits in 1951 from the production of oil or gas from its producing wells that it operated at a profit in 1951, on the ground that that was the amount of its profits for 1951 that were reasonably attributable to the production of oil or gas from its profitable producing wells. Alternatively, it claimed that if the aggregate of its profits from its profitable producing wells must be reduced, pursuant to subsection (4) of section 1201 of the *Regulations*, by the aggregate of its losses from the production of its producing wells that it operated at a loss in 1951, which amounted to \$8,066,012.55, the base of its deductible allowance would be \$31,004,987.24 and the amount of its deductible allowance \$10,334,995.74.

The appellant's producing department was conducted as a separate entity and the accounts of its producing wells, whether operated profitably or at a loss, were kept on an individual well basis. The profit or loss from each well was determined after charging to it various direct and indirect charges, including the exploration and development expenses directly related to it. The purpose of this system was to determine in the case of each well the profit of the appellant, if any, that was "reasonably attributable to the production of oil or gas from the well".

In assessing the appellant, the Minister fixed the amount of its deductible allowance at \$790,067.36, being 33½ per cent of \$2,370,202.07, which he considered to be the amount of its aggregate profits for 1951 from the production of oil or gas from all its wells, whether producing or not or whether profitable or not. In arriving at this amount the Minister reduced the base of \$31,004,987.24 relied upon by the appellant by two amounts, of which the first was \$19,992,588.33, being the amount of the

appellant's drilling, exploration and other costs in 1951, which it contended was unrelated and, therefore, not "reasonably attributable" to the production of oil or gas from any of its producing wells, but which the Minister deducted under section 53 of the 1949 Act, as amended, on the ground that they were reasonably attributable to the production of oil or gas in 1951, and the second was \$8,642,196.84 being unrealized profit in supply, manufacturing and marketing inventories. The appellant appealed against the assessment.

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- Held:* That the computation of the base for the deductible allowance to which the appellant is entitled under section 1201 of The Income Tax Regulations must be made on an individual producing well basis, and, since the appellant operated more than one well, that computation is subject to the definition of the base set out in subsection (4) of the section.
2. That when subsections (1), (4) and (5) of section 1201 of the Regulations refer to profits "reasonably attributable" to the production of oil or gas it is the production of oil or gas from a producing well that must be considered.
 3. That in determining whether there were profits that were "reasonably attributable" to the production of oil or gas from a well subsections (1) and (5) of section 1201 of the Regulations must be read together.
 4. That section 53 of the 1949 Act, as amended, allows the deduction for income tax purposes of certain items of expenditure, such as all the costs of drilling, which, ordinarily, would be of a capital nature and not deductible as items of operating expense, and subsection (5) of section 1201 of the Regulations requires it in the computation of the base for the deductible allowance, but the opening words of subsection (5), namely, "In computing the profits reasonably attributable to the production of oil or gas for the purpose of this section" plainly limit the compellable deduction of amounts allowed to be deducted under section 53 to amounts of expenditures that are "reasonably attributable" to the production of oil or gas from the well under consideration, and does not require the deduction of amounts of expenditures that are not clearly related to the production of oil or gas from the well.
 5. That for the purpose of determining the net result under subsection (4) of section 1201 of the Regulations it is necessary in each case to deal with the well under subsection (1) to ascertain whether there were any profits for the year "reasonably attributable" to the production of oil or gas from it in that year or whether there was a loss.
 6. That the proper approach to the ascertainment of the effect of subsection (4) on the computation of the base for the deductible allowance permitted by the section is to look first at subsection (1) and then at subsection (5) to ascertain the individual profits and the individual losses that were "reasonably attributable" to the production from each producing well and then, pursuant to subsection (4), determine the aggregate of the profits and the aggregate of the losses and deduct the latter from the former, the net result constituting the base for the computation of the appellant's deductible allowance.
 7. That the profits of the appellant for 1951 that were reasonably attributable to the production of oil or gas from its profitable producing wells amounted in the aggregate to \$39,070,999.79 and that its losses for 1951 that were reasonably attributable to the production of oil and gas from its loss producing wells amounted in the aggregate to

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\$8,066,012.55 and that, pursuant to subsection (4) of section 1201 of the Regulations, the net result of \$31,004,987.24 was the amount of the appellant's profits for 1951 that were reasonably attributable to the production of oil or gas in 1951 from all the wells operated by it in that year.

8. That the power to enact a regulation determining the amount of the deductible allowance permitted by section 11(1)(b) of the Act was granted in the broadest terms, that the section does not specify what the base for the computation of the allowance should be or its amount and that subsection (4) of section 1201 of the Regulations is within the authority of section 11(1)(b) of the Act.
9. That the ascertainment of the appellant's profits "reasonably attributable" to the production of oil or gas from its wells necessarily involves a computation of the expenditures reasonably attributable to such production as well as that of the receipts reasonably attributable to it, that if an expenditure is to be chargeable against a well it must be shown that it was incurred in 1951 and was "reasonably attributable" to the production of oil or gas from such well in that year and that whether a particular expenditure was "reasonably attributable" to such production must, of necessity, be a question of fact and its determination must depend, largely at any rate, on the opinions of persons qualified to express them.
10. That the amount of \$19,992,588.13 which the Minister deducted from the base of \$31,004,987.24 on which the appellant relied represented drilling, exploration and other costs that were not related to the production of oil or gas from any of the appellant's wells and were not charges that could properly be charged against any producing well, that it could not be said that they were reasonably attributable to any production and that the Minister had no right to deduct the amount or any portion of it from the amount of the appellant's profits.
11. That the amount of \$8,642,196.84 which the Minister deducted from the base of \$31,004,987.24 on which the appellant relied represented unrealized profits in supply, manufacturing and marketing inventories that had passed away from the appellant's producing department as if they had been sold to a third party and that the Minister had no right to deduct the amount from the appellant's profits reasonably attributable to the production of oil or gas from its wells.
12. That the appeal from the assessment must be allowed.

APPEAL under the *Income Tax Act*.

The appeal was heard by The President of the Court at Ottawa.

A. S. Pattillo, Q.C., A. J. MacIntosh, J. B. Tinker and J. G. MacDonell for appellant.

Terence Sheard, Q.C., and T. Z. Boles for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (December 24, 1958) delivered the following judgment:

The appellant has appealed against its income tax assessments for 1951, 1952 and 1953 but it was agreed between counsel that the Court should now hear only its appeal against the 1951 assessment and that its appeals against the assessments for 1952 and 1953 should stand over.

The notice of appeal sets out two independent grounds of appeal, one relating to the amount of the deductible allowance to which the appellant was entitled under section 11(1)(b) of *The Income Tax Act*, Statutes of Canada, 1948, Chapter 52, as amended, and section 1201 of The Income Tax Regulations, hereinafter called section 1201 of the Regulations, enacted under the authority of section 106 of the Act and amended by Order in Council P.C. 4443, dated August 29, 1951, and the other to the amount which it was entitled to deduct under section 11(1)(f) of the Act by reason of its contribution to its employees' superannuation fund or plan. The subject matter of the latter ground of appeal has been dealt with recently in this Court by Kearney J. in *Minister of National Revenue v. The Ontario Paper Company Limited*¹, a judgment now under appeal to the Supreme Court of Canada, and it was agreed between counsel that the final result in that case should bind the parties hereto in respect thereof. Consequently, it stands in abeyance, so that this appeal is confined to consideration of the amount of the deductible allowance to which the appellant was entitled in 1951 under section 11(1)(b) of the Act and section 1201 of the Regulations.

The appellant's right to a deduction allowance stems from section 11(1)(b) of the Act which provides:

11. (1) Notwithstanding paragraphs (a), (b) and (h) of subsection (1) of section 12, the following amounts may be deducted in computing the income of a taxpayer for a taxation year:

(b) such amount as an allowance in respect of an oil or gas well, mine or timber limit, if any, as is allowed to the taxpayer by regulation,

In view of the opening words of the section it is, strictly speaking, not necessary to set out paragraphs (a), (b) and

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¹ [1958] Ex. C.R. 52.

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(h) of subsection (1) of section 12 but, *ex abundanti cautels*, I do so. They read as follows:

12. (1) In computing income, no deduction shall be made in respect of
 - (a) an outlay or expense except to the extent that it was made or incurred by the taxpayer for the purpose of gaining or producing income from property or a business of the taxpayer,
 - (b) an outlay, loss or replacement of capital, a payment on account of capital or an allowance in respect of depreciation, obsolescence or depletion except as expressly permitted by this Part,
 - (h) personal or living expenses of the taxpayer except travelling expenses (including the entire amount expended for meals and lodging) incurred by the taxpayer while away from home in the course of carrying on his business.

The regulation referred to in section 11(1)(b) of the Act is section 1201 but it is preceded by section 1200, which is in the following terms:

1200. For the purposes of paragraph (b) of subsection (1) of section 11 of the Act there may be deducted in computing the income of a taxpayer for a taxation year amounts determined as hereinafter set forth in this Part.

Then section 1201, in its original form, provided as follows:

1201. (1) Where the taxpayer operates an oil or gas well, or where the taxpayer is a person described as the trustee in subsection (1) of section 73 of the Act, the deduction allowed for a taxing year is 33½ per cent of the profits of the taxpayer for the year reasonably attributable to the production of oil or gas from the well.

(2) Where a person, other than the operator of an oil or gas well and the person described as the trustee in section 73 of the Act, has an interest in the proceeds from the sale of the products of the well or an interest in income from the operating of the well, the deduction allowed for a taxation year is 25 per cent of the amount in respect of such interest included in computing his income for the year.

(3) Where an amount received in respect of an interest in the income from the operation of a well is dividend or is deemed by section 73 of the Act to be a dividend, no deduction shall be allowed under subsection (2) of this section.

(4) In computing the profits reasonably attributable to the production of gas or oil for the purpose of this section a deduction shall be made equal to the amounts, if any, deducted from income under the provisions of section 53 of Chapter 25 of the Statutes of 1949, Second Session, in respect of the well.

This was the state of section 1201 immediately prior to its revocation and re-enactment by Order in Council P.C. 4443, dated August 29, 1951, *vide* Canada Gazette, Vol. 85, 1951, Part II, September 12, 1951, made applicable to 1951 and subsequent years. In its amended form, section 1201 reads as follows:

1201. (1) Where the taxpayer operates an oil or gas well the deduction allowed for a taxation year is 33½ per cent of the profits of the tax-

payer for the year reasonably attributable to the production of oil or gas from the well.

(2) Where a person, other than an operator, has an interest in the proceeds from the sale of the products of an oil or gas well or an interest in income from the operation of the well, the deduction allowed for a taxation year is 25 per cent of the amount in respect of such interest included in computing his income for the year.

(3) Where an amount received in respect of an interest in the income from the operation of a well is a dividend or is deemed by the Act to be a dividend, no deduction shall be allowed under this section.

(4) Where the taxpayer operates more than one oil or gas well, the profits referred to in subsection one shall be the aggregate of the profits minus the aggregate of the losses of the taxpayer for the year reasonably attributable to the production of oil or gas from all wells operated by the taxpayer.

(5) In computing the profits reasonably attributable to the production of oil or gas for the purpose of this section a deduction shall be made equal to the amounts, if any, deducted in computing the taxpayer's income for the taxation year under the provisions of section 53 of Chapter 25 of the Statutes of 1949, Second Session.

And section 53 of Chapter 25 of the Statutes of 1949, Second Session, as amended by Chapter 40 of the Statutes of 1950, being an *Act to Amend The Income Tax Act and the Income War Tax Act*, hereinafter called the 1949 Act, provided:

53. (1) A corporation whose principal business is production, refining or marketing of petroleum, petroleum products or natural gas or exploring or drilling for petroleum or natural gas may deduct in computing its income, for the purposes of The Income Tax Act, the lesser of

- (a) the aggregate of the drilling and exploration costs, including all general geological and geophysical expenses, incurred by it, directly or indirectly, or in respect of exploring or drilling for oil and natural gas in Canada
 - (i) during the taxation year, and
 - (ii) during previous taxation years, to the extent that they were not deductible in computing income for a previous taxation year, or
- (b) of that aggregate an amount equal to its income for the taxation year
 - (i) if no deduction were allowed under paragraph (b) of subsection one of section eleven of the said Act, and
 - (ii) if no deduction were allowed under this subsection, minus the deduction allowed by section twenty-seven of the said Act.

The issues in the appeal appear succinctly in a reconciliation statement, filed as Exhibit 76, prepared by Mr. G. L. McLellan, the appellant's assistant comptroller, who was in charge of the accounting of its producing department and kept its accounts as if it were a separate entity. The appellant claims that the amount of the deductible allowance to which it was entitled for 1951 is \$13,023,666.59, being 33½

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per cent of \$39,070,999.79, the amount of its profits for 1951 from the production of oil or gas from its producing wells that it operated at a profit in 1951. On the other hand, the Minister fixed the amount of its deductible allowance at \$790,067.36, being 33½ per cent of \$2,370,202.07, which he considered to be its profits for 1951 from the production of oil or gas from all its wells, whether producing or not and whether profitable or not. There is thus a great difference in the amount of the base from which the amount of the deductible allowance is to be computed.

The appellant contends, primarily, that it should be \$39,070,999.79, being the amount of its profits for 1951 reasonably attributable to the production of oil or gas from the 857 producing wells that it operated at a profit in 1951, called its profitable producing wells. Alternatively, it claims that if the aggregate of its profits from its profitable producing wells must be reduced, pursuant to subsection (4) of section 1201 of the Regulations, by the aggregate of its losses from the 228 producing wells that it operated at a loss in 1951, called its loss producing wells, the base of its deductible allowance will be reduced by \$8,066,012.55, being the aggregate of its losses from its loss producing wells, leaving a base of \$31,004,987.24, on which the appellant's deductible allowance would be \$10,334,995.74.

But the Minister determined that the base of \$31,004,987.24 should be reduced by all the expenses that were chargeable for income tax purposes under section 53 of the 1949 Act, as amended. He reduced the base contended for by the appellant by two substantial amounts. The first of these was \$19,992,588.33, being the amount of the appellant's drilling, exploration and other costs in 1951, which the appellant contends were unrelated and, therefore, not reasonably attributable to the production of oil or gas from any of its producing wells, within the meaning of section 1201 of the Regulations, but which the Minister deducted from its profits, purporting to do so under the authority of section 53 of the 1949 Act, as amended. The other amount was \$8,642,196.84, being, as the Minister considered, unrealized profit in supply, manufacturing and marketing inventories, but being in reality the amount of the crude oil and petroleum products held by departments of the appellant other than its producing one, an over-all inventory adjustment that will be explained later.

The reduction of the two amounts referred to brought the Minister's base for the computation of the appellant's deductible allowance down from \$31,004,987.74 to \$2,376,202.07 and 33½ per cent of this amount came to \$790,067.36, which he held to be the amount of the appellant's deductible allowance.

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Put alternatively, the appellant added back to the base of \$2,376,202.07, used by the Minister for the computation of its deductible allowance, the two amounts of \$19,992,588.33 and \$8,642,196.84.

The appeal raises several questions of great importance from a financial point of view by reason of the magnitude of the amount involved. If the appellant succeeds in all its contentions it will be entitled to deduct from its taxable income for 1951 the sum of \$13,023,666.95 instead of the sum of \$790,067.36 and, since it has paid income tax on the amount of the assessment it will be entitled to a refund of the tax which it has overpaid. When this case was set down for trial I was informed by counsel that the issues were similar, except for the amounts involved, in the case of the assessments for the years 1952, 1953, 1954, 1955 and 1956 to those in the present case and that if the appellant succeeded throughout the total amount of the refunds to which it would be entitled would be in the neighborhood of \$40,000,000.

The questions involved in the appeal fall to be determined in a natural order. The primary question is whether the appellant is entitled to have its deductible allowance under section 11(1)(b) of the Act and section 1201 of the Regulations computed on the basis of the profits from each of its producing wells dealt with individually. The determination of this question involves consideration of whether and to what extent the decision of the Supreme Court of Canada in *Home Oil Company Ltd. v. Minister of National Revenue*¹ is applicable to the present case, in view of the fact that section 1201 of the Regulations in its amended form is different in terms from the section that the Supreme Court had to consider in the *Home Oil* case.

The next question is subsidiary to the primary one, namely, whether the appellant, notwithstanding subsection (4) of section 1201 of the Regulations, is entitled to have the computation of its deductible allowance based solely

¹ [1955] S.C.R. 733.

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on the profits from its profitable producing wells without deduction of the losses of its loss producing wells. The determination of this question involves consideration of whether subsection (4) of section 1201 of the Regulations is *ultra vires*, as counsel for the appellant contended.

There are two other questions of a different nature. The first is whether the Minister in determining the amount of the appellant's profits for 1951 reasonably attributable to the production of oil or gas from its wells had any right to deduct the amount of \$19,992,588.33, being the amount of its exploration and other costs incurred in 1951 that were not related to the production of oil or gas from any of its wells in 1951.

Finally, it must be determined whether the Minister, in determining the base for the computation of the appellant's deductible allowance, had any right to deduct the inventory adjustment of \$8,642,196.84.

Before I deal specifically with these questions, I should summarize the evidence adduced on behalf of the appellant as to its oil and gas activities in 1951. This was given by Mr. W. D. C. Mackenzie, the appellant's general manager of its producing department, Mr. J. D. Macgregor, Mr. Mackenzie's adviser on matters pertaining to exploration for oil and gas in Canada, Mr. W. J. Gibson, the appellant's operations adviser to its producing department in Toronto, Mr. W. Roliff, the appellant's manager of the eastern division of its producing department, and Mr. E. H. Vallat, an experienced oil consultant. Counsel for the respondent did not call any witnesses and suggested that much of the evidence adduced for the appellant was irrelevant to the issues before the Court. I do not agree. In my opinion, their evidence has an important bearing on some of the questions that I have enumerated. Moreover, in view of the fact that the issues involve considerations of such monetary magnitude that an appeal to the Supreme Court of Canada from the decision of this Court, no matter what it may be, is a certainty, I believe that this Court should set out its findings on the basis of the evidence for what they may be worth. The same will be true of the accounting evidence to which reference will be made later.

The appellant had its head office at Sarnia and its executive office at Toronto. The evidence establishes that it ran its several activities by departments, one of which, and the

only one with which we are concerned in this case, was its producing department. It conducted this department, as it also did each of its other departments, as if it was a separate entity and kept the accounts of its producing department accordingly. Certainly, for the purpose of determining the amount of the deductible allowance to which the appellant was entitled under section 11(1)(b) of the Act and section 1201 of the Regulations this course was proper. Indeed, it is difficult to see how it could properly have been determined otherwise.

The producing department had two divisions, one in Western Canada with its headquarters at Calgary and the other in Eastern Canada with its headquarters at London. The producing department had two sections, one concerned with exploration and the other with development.

I shall deal first with the activities of the producing department in Western Canada. The lands in which the appellant had an interest were extensive, as appears from a map, filed as Exhibit 1. Its exploration section in Western Canada had district offices at Edmonton, Regina and Peace River and its development section had offices at Devon and Redwater near Edmonton.

It was the practice of the appellant to budget in each year for the exploration and development work to be done in the following year and in accordance with this practice it had in 1950 planned an exploration programme for 1951 in three areas, one in South-western Manitoba and South-eastern Saskatchewan, another in the greater Edmonton area and the third in Northern Alberta. It had also planned a development programme almost entirely in the greater Edmonton area in the Leduc and Redwater fields. The extent of the programmes is indicated by the fact that the budget contemplated an expenditure of approximately \$15,000,000 for exploration and approximately \$20,000,000 for development.

Here I should set out what is meant by the terms "exploration" and "development" as they are understood in the industry. Exploration takes two forms, one being primary exploratory work and the other exploratory drilling. Primary exploratory work is done in an area that has not previously been explored and in which there has not been any clear indication of the presence of oil or gas. It consists essentially of work of a geophysical character, such as

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seismic, gravity-meter and aerial magnetometer surveys, but it also includes work of a geological nature, such as structure test drill surveys, that is to say, shallow sub-surface geologic oil investigations designed to show the geological character of the deeper sub-surface, and general surface geological surveys. Then, if the geophysical or geological indications so suggest exploratory drilling is done in the hope of finding oil or gas in an area in which it has not previously been found. Then, there may be velocity surveys in holes that may have been drilled in order to determine the velocity of sound waves through the rock formations in aid of the interpretation of such seismic surveys as have been made. In addition to its aerial surveys, the appellant did some photogeology work, that is to say, it took some aerial photographs of the ground in order to assist in the determination of its geological character. Photogeology work is a reconnaissance guide to surveys.

If a well is drilled and produces oil or gas it is called a discovery well. In the area of such discovery the development section then takes over and development drilling is done in it for the purpose of developing whatever oil reserves there may be in it.

Mr. Macgregor drew a vivid picture of the geology of the sedimentary basin in Western Canada in which its oil and gas fields lie. Oil and gas are mineral substances, hydrocarbons, that occur within the sedimentary rocks that overlie the igneous rocks, which together form the sixty mile thick crust of the earth. The sedimentary rocks occur in sedimentary basins and the prairies of Western Canada constitute its principal sedimentary basin, bounded on the east by the igneous Pre-Cambrian shield and on the west by the Rocky Mountains. Oil and gas are found in the sedimentary rocks in this basin. There are a million cubic miles of such rocks. These are classified according to the era in which they were formed, the oldest being immediately above the igneous rocks and the youngest nearest the surface.

The presence of oil or gas depends on three conditions. Firstly, there must have been a source from which it was created. Oil and gas are hydrocarbons and it is generally believed that they had an organic source, the disintegration and decomposition of plant and animal creatures. Secondly, the rock formations must have sufficient porosity to accommodate the products thus created. Here it should be noted

that oil does not exist in the form of a lake or pool. It occurs in the cavities or pores of rocks whose formation might be likened to that of sponges. The porosity of rocks is measured in terms of percentage of the pores to the total rock. Finally, the oil or gas must be trapped, that is to say, there must be a condition in the rocks that prevents the migration of the oil or gas. Consequently, the object of exploration is to discover such traps.

There are three types of such traps. The first is a structural one, called anticline, in which the movement of the earth has caused the rocks to be deformed in such a way as to contain the oil or gas and prevent it from migration, such as the Turner Valley field. A second type is called stratigraphic and occurs where the geological condition is such that the rock porosity disappears and sand takes its place, an example of which is found in the Pembina field. The third type of oil field trap is organic, of which a coral reef is an example, it being considered that organisms built it. In Western Canada the Devonian coral reefs are of particular importance. A great part of the appellant's exploration in 1951 was concentrated on the Devonian coral reef in the Leduc area.

It should be emphasized that there is no such thing as a direct oil finding method. Exploration for oil and gas is indirect. As already stated, there must first be an exploratory survey for the geological conditions that must exist for the presence of oil or gas. But, even when the geologic conditions seem favorable, there is no certainty that oil or gas will be found and its actual presence cannot be definitely ascertained until after an exploratory well has been drilled. The most important of the surface exploratory surveys in Western Canada is the seismic survey. Its purpose is to assist in the ascertainment of the existence and character of the rocks or reefs in which oil or gas may be found, without actually drilling an exploratory well. Mr. Macgregor explained the operation of a seismic survey and it was portrayed on a sketch, filed as Exhibit 41. It need not be described in detail for the purposes of this case. It is sufficient to say that a shallow hole is drilled and a charge of dynamite is exploded in it. This creates an artificial earthquake and the sound waves generated by the explosion penetrate into the sub-surface and are reflected back to the surface as they strike the various classes of rock. The times

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of the various reflections are picked up by geophones at the surface and the results recorded in what is called a seismogram. It is important to have velocity surveys in order to determine the velocity of the seismic waves so that the results of the seismic survey may be correctly interpreted. By this method information is obtained relating to the sub-soil rock formations in the area in which the seismic survey is made.

In connection with its surveys the appellant acquired from other companies the results of the velocity surveys made by them. A complete list of the velocity survey costs cleared to leasing and exploration expense for the year ended December 31, 1951, was filed as Exhibit 43. This shows the amounts paid to other companies for the velocity surveys run by them, including late charges in 1951 for velocity surveys run in previous years, and also the velocity surveys conducted by the appellant itself showing the costs incurred by it in respect of them.

In connection with its exploratory work the appellant also made contributions to test wells drilled by its competitors on lands adjacent to its own for the purpose of obtaining the results of such wells. The location of such test wells is shown on a map, filed as Exhibit 6, and a complete list of the appellant's test well contributions in 1951 and their amounts was filed as Exhibit 44.

The exploration and development programmes for 1951 proceeded substantially as planned but with varying results. The exploration work in South-western Manitoba and South-eastern Saskatchewan, which was of a primary exploratory nature, except that some drilling was done in Manitoba, was disappointing. The results in the greater Edmonton area, where primary exploratory work had been practically completed in 1950, were generally discouraging, except that some gas wells were discovered. And in Northern Alberta, although some wells were drilled, the exploration work was all unsuccessful except that one oil well was discovered. Altogether, the appellant's exploration work in 1951 in Western Canada resulted in 1 oil discovery, 11 gas discoveries and 33 dry holes. In addition, there were 16 wells that were incomplete at the end of the year and there were late charges in the year against 22 wells that had been drilled previously. The locations of the wells and holes

referred to are shown on a map, filed as Exhibit 3, and the summary of the results of the exploratory drilling is set out in Exhibit 50.

A list of the 45 exploratory wells drilled by the appellant in 1951 was filed as Exhibit 45. This shows the location of each well, the date when it was spudded in, that is to say, when drilling was commenced, and the date of its completion. There was also a list, filed as Exhibit 46, showing the 16 wells that were spudded in during 1951 but were incomplete at the end of the year or in respect of which preparatory costs had been incurred in 1951, although drilling did not commence until later, and also of 22 wells completed prior to 1951 in respect of which late charges were incurred in 1951.

There was a similar list, filed as Exhibit 47, which included wells which were not operating in 1951 by reason of having been shut-in or capped. A shut-in well is one that has proved itself capable of production but its production, for some reason or other, has been prevented or "shut-in". If the well is a gas well the corresponding term is "capped", that is to say, the production valves are closed.

On the other hand, the development work in 1951 in Western Canada met with a high measure of success. It resulted in 289 oil wells, 2 gas wells and 12 dry holes. In addition, there were 77 wells that were incomplete at the end of the year and there were late charges in the year against 213 wells that had been drilled previously. The locations of the wells and holes are shown on a map filed as Exhibit 3 and the summary of the results of the development drilling is set out in Exhibit 50.

The locations of the appellant's exploration and development work in 1951 in Western Canada and the nature of the work done were all shown on maps and overlays filed as Exhibits 2 to 27 inclusive.

The appellant also carried on exploration and development work in 1951 in Eastern Canada, mostly in South-western Ontario, west of Toronto and Hamilton and north to Georgian Bay. There was also some surface exploration activity in the Atlantic provinces. The lands in which it had an interest are shown on a map, filed as Exhibit 28. William Roliff, the appellant's manager of the eastern division of its producing department and consequently, responsible for its exploration and development activities in Eastern Canada,

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gave evidence of its activities in 1951 in Eastern Canada. There, the problem was to find the reefs in which oil or gas occurred and resort was had to gravity-meter and sub-surface geology surveys, rather than to seismic surveys which did not give sufficiently valuable results. The gravity-meter surveys were more successful because of the differences in density of the rock column which comprised the reef and sediments and the rock column adjoining the reef. Mr. Roliff filed a number of exhibits in the course of his evidence, showing the activities in 1951 in Eastern Canada, namely, a list of exploratory wells, as Exhibit 66; a list of development wells, as Exhibit 67; a list of incomplete drilling and preparatory costs, as Exhibit 68; a similar list but including shut-in wells, as Exhibit 69; a list of late charges on wells completed in prior years, as Exhibit 70; a similar list but including shut-in wells, as Exhibit 71; a list of 1951 late charges on wells completed in prior years, as Exhibit 72; and a similar list but including shut-in wells, as Exhibit 73. The results of the drilling activity in 1951 in Eastern Canada were set out in a table, filed as Exhibit 75. The exploratory drilling resulted in 5 gas discoveries, 16 dry holes, 4 wells that were incomplete at the end of the year and 24 cases of late charges to previously drilled wells. The development drilling resulted in 1 oil well, 4 gas wells, 15 dry holes, 3 wells that were incomplete at the end of the year and 32 cases of late charges to previously drilled wells. The locations of the exploration and development work in 1951 in Eastern Canada and the nature of the work done were all shown on maps and overlays filed as Exhibits 29 to 35 inclusive.

Mr. W. J. Gibson, the appellant's operations adviser to its producing department at Toronto, who was its division petroleum engineer at Calgary in 1951, gave evidence relating to the appellant's development activities in Western Canada in 1951. He described in detail the manner in which a well was drilled and explained the various operations that took place in the course of the drilling, these being illustrated by schematic sketches filed as Exhibits 52 to 56 inclusive. It is not necessary to set out their description.

Mr. Gibson also explained how a well was put on production after it had been drilled and oil or gas had been found. The practice was to flow the well into what is called a central battery, which is a group of tanks. The fluid which

may contain gas and water as well as oil flows from the well through a flow line to a separator. Any gas is taken off at the top, passes through a meter where it is measured and then to a gas line where it goes to the market or is flared if there is no market. Any water at the bottom is drained off and the oil flows into a storage tank from which it goes to a pipe line. Several wells, up to sixteen or twenty, may be produced into a single battery. The regulations require that the amounts of oil, gas and water from each well should be measured. Mr. Gibson explained in detail how the production of each well was determined. It is not necessary to elaborate his explanation beyond saying that the producing rate of each well expressed in terms of barrels per hour is established. But, since the producing characteristics of wells vary from well to well and the flow from a single well may vary from time to time, one or two tests per month are run. The total quantity of oil from each well is determined in a manner explained by Mr. Gibson. There is no dispute on this subject.

I now come to the primary question in this appeal, namely, whether the computation of the base for the deductible allowance to which the appellant is entitled is to be made on an individual producing well basis as the appellant contends or on an aggregate basis as the Minister asserts. There is no doubt in my mind that the former basis is the proper one. A similar question arose in *Home Oil Company Limited v. Minister of National Revenue*¹ in which section 1201 of the Regulations in its original form was considered. In this Court I held that the amount of the allowance to which the appellant in that case was entitled under subsection (1) of section 1201 of the Regulations, as it then stood, was fixed under subsection (4) by the amount of the expenditures which it had deducted under section 53 of the *Income Tax Amendment Act, 1949* and that, since it had deducted all its exploration and development expenditures under that section, subsection (4) of section 1201 required that the same amount of expenditures must be deducted in computing its profits for the purpose of subsection (1) and that the profits contemplated by subsection (1) were the aggregate, over-all profits from the production of oil and gas from all the appellant's wells. The Supreme

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¹ [1954] Ex. C.R. 633; [1955] S.C.R. 733.

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Court of Canada unanimously reversed my judgment and allowed the appellant's appeals from the 1949 and 1950 assessments. Rand J., delivering the judgment of the Court, held that in computing the appellant's deductible allowance its producing wells must be dealt with individually, that unless the items of expenditure under section 53 of the Act of 1949 were clearly related to a profitable producing well they were not to be taken into account in determining the allowance under Regulation No. 1201 in respect of that well, and that the profits from the profitable producing wells were not subject to deduction of the losses of the loss producing wells.

The Court has now to consider section 1201 of the Regulations in its amended form. Subsection (1) remains substantially as it was but two changes have been made. Subsection (4) has been added and the concluding words of subsection (4), now subsection (5), "in respect of the well" have been omitted.

I have no hesitation in finding that in determining the base for the computation of the appellant's deductible allowance under the present section 1201 of the Regulations it is just as important that each producing well should be dealt with individually as it was under the section in its former state.

The importance of the words "reasonably attributable" in subsections (1), (4) and (5) of section 1201 cannot be too strongly stressed. It is concerned only with producing wells. It is the production of oil or gas from a producing well that must be considered. And since, under subsection (1), the base for the computation of the deductible allowance is $33\frac{1}{3}$ per cent of the profits of the appellant for the year "reasonably attributable" to the production of oil or gas in the year from its producing well, it follows, of necessity, that it must be determined in the case of each producing well whether there were any profits in the year that were "reasonably attributable" to the production of oil or gas from it in the year. This involves an ascertainment in each case of the revenues derived from the production of oil or gas from it and of the expenditures incurred in such production. Both the revenues and the expenditures must be "reasonably attributable" to the production.

In this connection the opinion of Rand J. in the *Home Oil* case (*supra*) that unless an item of expenditure under sec-

tion 53 of the 1949 Act is clearly related to a profitable producing well it is not to be taken into account in determining the allowance under Regulation No. 1201 in respect of that well, is just as applicable under the present section as it was under the section as it stood when the judgment of the Supreme Court of Canada was rendered. And the principle must be similar in the case of a loss producing well.

I agree, therefore, with the submission of counsel for the appellant that in determining whether there were profits that were "reasonably attributable" to the production of oil or gas from a well, subsections (1) and (5) of section 1201 of the Regulations must be read together.

The purpose of subsection (5) is to require the deduction of the amounts of certain items of expenditure related to the production of oil or gas from the well that would not ordinarily enter into the computation of profits but are allowed to be deducted by section 53 of the 1949 Act, such as all the costs of drilling the well that were incurred in the year. Ordinarily, such costs would be of a capital nature and not deductible as items of operating expense. But section 53 allows their deduction for income tax purposes and subsection (5) of section 1201 of the Regulations requires it in the computation of the base for the deductible allowance. But the opening words of subsection (5), namely, "In computing the profits reasonably attributable to the production of oil or gas for the purpose of this section" plainly, in my opinion, limit the compellable deduction of amounts allowed to be deducted under section 53 to amounts of expenditures that are "reasonably attributable" to the production of oil or gas from the well under consideration, and does not require the deduction of amounts of expenditure that are not "clearly related", as Rand J. put, to the production of oil or gas from the well. As I see it, the only amounts of deductible expenditures under section 53 of the 1949 Act that are required to be deducted under subsection (5) are those that are "reasonably attributable" to the production of oil or gas from the well. If they are not so "reasonably attributable" subsection (5) does not require their deduction and they are not to be taken into account in determining the base for the computation of the appellant's deductible allowance.

Moreover, the use of the words "amounts, if any," in subsection (5) further points to the need of an individual well

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basis for the computation of the allowance and negatives the contention of counsel for the respondent that subsection (5) requires the deduction of the total of the amounts that were deducted under section 53 for income tax purposes, regardless of whether they are attributable to the production of oil or gas from a well or not. Such a contention would render the opening words of subsection (5) meaningless. I shall refer to subsection (5) further when I deal with the item of \$19,992,588.33 of unrelated drilling, exploration and other costs.

In section 1201 of the Regulations as it stood prior to its amendment the base for the computation of the deductible allowance permitted by it was the profits "reasonably attributable" to the production of oil or gas from its profitable producing wells dealt with individually, without deduction of the losses of its loss producing wells. The amended section was designed to change this and it did so by subsection (4) which defined the profits referred to in subsection (1) in cases where the taxpayer operated more than one oil well as the aggregate of the profits minus the aggregate of the losses of the taxpayer for the year "reasonably attributable" to the production of oil or gas from all the wells operated by him. This subsection plainly points to the necessity of dealing with each producing well individually. It must be ascertained in the case of each well whether it operated at a profit or at a loss and in each case the revenues and expenditures that were "reasonably attributable" to the production of oil or gas from the well must be determined. It would be impossible to fix the aggregate of the profits of the profitable producing wells without first ascertaining the profits of each profitable producing well singly, and the aggregate of the losses of the loss producing wells could not be determined without first ascertaining the losses of each loss producing well singly. The determination of an aggregate necessarily implies the determination of the items that combine to make it up. Thus, for the purpose of determining the net result under subsection (4) it is necessary in each case to deal with the well under subsection (1) to ascertain whether there were any profits for the year "reasonably attributable" to the production of oil or gas from it in that year or whether there was a loss. And here I also agree with counsel for the appellant in his submission that the proper approach to the ascertainment of the effect of

subsection (4) on the computation of the base for the deductible allowance permitted by the section is to look first at subsection (1) and then at subsection (5) to ascertain the individual profits and the individual losses that were "reasonably attributable" to the production from each producing well and then, pursuant to subsection (4), determine the aggregate of the profits and the aggregate of the losses and deduct the latter from the former, the net result constituting the base for the computation of the appellant's deductible allowance. And in this connection my remarks concerning the application and construction of subsection (5) apply as they did previously.

Thus, in my opinion, the conclusion is inescapable that the computation of the base for the deductible allowance to which the appellant is entitled under section 1201 of the Regulations must be made on an individual well basis, subject to the fact that since the appellant operated more than one well the base for the computation of the deductible allowance must be that defined by subsection (4).

Having come to this conclusion I proceed to consideration of the evidence of the amounts of the appellant's profits from its profitable producing wells and the amounts of its losses of its loss producing ones that were respectively "reasonably attributable" to its production of oil or gas from them. The evidence was primarily that of Mr. G. L. McLellan, the appellant's assistant comptroller, to whom reference has already been made. Counsel for the appellant also called two outstanding chartered accountants from Toronto in support of Mr. McLellan's conclusions, Mr. W. L. McDonald, a senior partner of Price, Waterhouse & Company, and Mr. G. G. Richardson, a senior partner of Clarkson, Gordon & Company.

Mr. McLellan gave a detailed description of how the accounts of the appellant's producing department were kept. The basic principle of the accounting was that the department was treated as if it were a separate entity and the accounts of the producing wells, whether profitable producing wells or loss producing wells, were kept on an individual well basis, with a view to determining in each case the profits of the appellant, if any, "reasonably attributable to the production of oil or gas from the well." The evidence was that in 1951 the appellant had 1,085 producing wells, of which 857 were operated at a profit and 228 at a

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loss. The accounts of all these wells were gathered together in three volumes, filed as Exhibits 79a, 79b and 79c. The first volume, Exhibit 79a, included the accounts of the wells in the Redwater field, the second, Exhibit 79b, those of the wells in the other parts of Western Canada and the third, Exhibit 79c, those of the wells in Eastern Canada. It was shown in the case of each producing well whether it was a profitable producing well or a loss producing one. Each account showed the items of revenue and the items of expense that were considered to be reasonably attributable to the production of oil or gas from the well. The basic revenue item in the case of each well was, of course, the amount representing the oil or gas that was delivered by it to some other department of the appellant. Such oil was priced at the posted field price, that is to say, its current market value at the date of its delivery. The gas was priced at the same amount as would have been paid to outsiders who delivered gas to the appellant's processing plant. In other words, the value of the amount of the oil or gas delivered from the well was credited to it at the market price that was current at the date of its delivery in the same way as if it had sold the oil or gas to a third person. On the other side of the account, the well was charged with the various expenses that would have been chargeable to it if it had been the appellant's only producing well, including, of course, the expenses that were deductible under section 53 of the 1949 Act. It is obvious that the items of chargeable expense were not the same in the case of each well. Thus, for example, if a well was producing oil or gas for the whole 12 months of 1951, there would be no drilling costs charged against it, for no such costs were incurred in 1951. But, I should enumerate the various items of expense that appear in the accounts, although they do not all necessarily appear in each one. Thus, the amount of oil issued to a royalty holder was a proper expense item but, since he did not ordinarily accept the oil in kind, its market value was paid to him and this amount was charged as an expense. Then, in each case the values of the opening and closing inventories of the well were taken into account on the basis of their cost but these amounts were necessarily small since only one or two days' production from the well would be involved. The other items of expense chargeable to a producing well were either direct or indirect. I enumerate the

direct expenses as they were set out by Mr. McLellan. They included such items as drilling costs where such costs were incurred in 1951. Apart from such drilling costs directly related to the producing well, there were other items of direct deductible expense that were reasonably attributable to the production of oil or gas from the well. They included direct operating expenses, such as labor, materials, operations at the well site and expenses at the battery site, items consumed in the operation of various kinds, production losses, lease rental, surface rental, taxes, and depreciation of equipment at the well head, such as tanks, batteries, separators and the like. All of these items of direct expense were carefully explained by Mr. McLellan. There were also items of indirect expense. In this connection Mr. McLellan filed 12 charts as Exhibits 81 to 92. Of these, Exhibits 81 to 87 applied to Western Canada and the remainder to Eastern Canada. The charts showed the manner in which the various indirect expenses were distributed and charged to the wells. They dealt with such items as the distribution of the Toronto office administration and general expense, organization and accounting, distribution of district supervision and expense to individual oil and gas wells, distribution of Calgary office general costs to individual oil and gas wells, distribution of miscellaneous operating charges and credits to individual oil and gas wells, distribution of administrative and general expense to individual oil and gas wells, and the distribution of exploration overhead expense. The charts applicable to Eastern Canada, filed as Exhibits 88 to 92, were of a similar nature and I need not enumerate the items dealt with by them. The nature and the manner of distribution and allocation of the various kinds of indirect expense appear from the charts and were carefully explained by Mr. McLellan. The propriety and accuracy of the charges were not challenged, and I see no reason why I should not accept them. In addition to these items of indirect expense there were the charges of exploratory costs that were set out in Exhibits 48, 63 and 74 and explained in detail by Mr. Macgregor, Mr. Gibson and Mr. Roliff and confirmed by Mr. Vallat, to which further reference will be made later when the item of \$19,992,588.33 of exploratory costs is considered. These were charged as items of expense to the wells to which they were shown to be related.

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I am confirmed in my acceptance of Mr. McLellan's conclusions by the opinions of Mr. McDonald and Mr. Richardson. Mr. McDonald agreed that the revenue stated by Mr. McLellan for each well was correctly determined and that the amount of the profits from the appellant's profitable producing wells, as set out in column 14 of Exhibit 77, and the amount of the losses from its loss producing wells, as set out in column 13 of the same exhibit, were correctly determined. I assume that his answer would have been the same in respect of columns 7 and 6 of Exhibit 78. Mr. McDonald also approved the allocations of indirect expense made by Mr. McLellan with one exception, which would have increased the appellant's profits.

And Mr. Richardson, subject to some qualifications in respect of which there was no evidence, agreed generally with Mr. McLellan's conclusions, subject to the same exception that Mr. McDonald had made. Thus, it may be taken for granted that Mr. McLellan's accounting was in accord with good accounting practice.

The total amounts of the profits from the profitable producing wells and of the losses of the loss producing wells are set out in detailed reconciliation statements prepared by Mr. McLellan and filed as Exhibits 77 and 78. These show the totals of the revenue items and expense items to which reference has been made and the net results. The total of the profits from the profitable producing wells came to \$39,070,999.79, made up of \$38,194,024.94 from Western Canada, as appears from column 14 of Exhibit 77, and \$876,974.85 from Eastern Canada, as appears from column 7 of Exhibit 78. The total of the losses of the loss producing wells came to \$8,066,012.55, made up of \$8,007,237.16 from Western Canada, as appears from column 13 of Exhibit 77, and \$58,775.39 from Eastern Canada, as appears from column 6 of Exhibit 78. The said totals appear on Exhibits 93 and 94 which were prepared by Mr. McLellan showing the results from the various oil fields.

There were referenes in the evidence to shut-in oil wells and capped gas wells. The reason for capping gas wells was that the market for natural gas was not sufficient to justify its removal from all the gas wells that had been completed up to the end of 1951 and some of them had to be capped. And in the case of the shut-in oil wells the reason for shutting them in was that transportation facilities were not

available at the time. Under the circumstances, I have excluded from consideration the shut-in oil wells and the capped gas wells on the ground that although they were capable of production in 1951 if they had not been shut-in or capped there was not any actual production of oil or gas from any of them in 1951 and it could not be said that any profits or losses were attributable to the production of oil or gas from any of them. In my opinion, they should be eliminated from consideration in the computation of the base for the appellant's deductible allowance.

Thus, subject to consideration of the items of \$19,992,-588.33 of exploratory costs and \$8,642,196.84 of inventory adjustment to which I shall refer later, I find on the evidence that the profits of the appellant for 1951 that were reasonably attributable to the production of oil or gas from its profitable producing wells amounted in the aggregate to \$39,070,999.79 and that its losses for 1951 that were reasonably attributable to the production of oil or gas from its loss producing wells amounted in the aggregate to \$8,066,-012.55. The deduction of the aggregate of the losses from the aggregate of the profits left a net of \$31,004,987.24. I find, pursuant to subsection (4) of section 1201 of the Regulations, that this was the amount of the appellant's profits for 1951 that were reasonably attributable to the production of oil or gas in 1951 from all the wells operated by it in that year.

It is apparent from this finding that I do not agree with the submission of counsel for the appellant that it is entitled to have its deductible allowance computed on the base of \$39,070,999.79, being its profits for 1951 reasonably attributable to the production of oil or gas from its profitable producing wells in that year without deduction of the losses of its loss producing ones, on the ground that subsection (4) of section 1201 of the Regulations is *ultra vires* and severable from the rest of the section. The submission was that section 11(1)(b) of the Act did not authorize a regulation that was so inconsistent with subsection (1) of section 1201 of the Regulations as subsection (4) was, and that, since the base for the computation of the deductible allowance permitted by section 11(1)(b) of the Act was fixed by subsection (1) of section 1201 of the Regulations as the profits reasonably attributable to the production of oil and gas in the year, determined on an individual well basis, it was not

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permissible to change such base as subsection (4) did. In my opinion, the submission is unsound. The power to enact a regulation determining the amount of the deductible allowance permitted by section 11(1)(b) of the Act and the base for its computation was granted in the broadest terms and I cannot see any limitation of it such as counsel suggests. The section of the Act does not specify what the base for the computation of the allowance should be or its amount. Thus, it was permissible to fix the profits reasonably attributable to the production of oil or gas as the base for the computation of the allowance and 33½ per cent of such base as its amount, as subsection (1) did. But it was also permissible to define such profits for application in cases where a taxpayer operated more than one well and some of the wells were loss producing, even if such definition altered the base fixed by subsection (1), as subsection (4) did. It contains a statutory definition of the profits referred to in subsection (1) for use in the cases stated in it. I see no objection to such a definition for use in the circumstances specified. In my opinion, subsection (4) is within the authority of section 11(1)(b) of the Act. That being so, it is unnecessary to consider the question of its severability.

I now come to the question whether the Minister in determining the amount of the appellant's profits for 1951 "reasonably attributable" to the production of oil or gas from its wells had any right to charge against such production the amount of \$19,992,588.33 for exploratory drilling and other costs which, according to the appellant, was not related to any of its production. In my opinion, as already stated, the ascertainment of the appellant's profits "reasonably attributable" to the production of oil or gas from its wells necessarily involves a computation of the expenditures reasonably attributable to such production as well as that of the receipts reasonably attributable to it. If an expenditure is to be chargeable against a well it must be shown that it was incurred in 1951 and was "reasonably attributable" to the production of oil or gas from such well in that year. Whether a particular expenditure was "reasonably attributable" to such production must, of necessity, be a question of fact and its determination must depend, largely at any rate, on the opinions of persons qualified to express

them. Mr. Macgregor, Mr. Gibson and Mr. Roliff were unquestionably such persons and a review of their evidence is, therefore, in order.

Mr. Macgregor stated that he had made a study of all the maps and the records of the appellant to satisfy himself what exploratory work done in 1951, if any, was related to any of its production of oil or gas in that year and he prepared a schedule of the only exploratory work in Western Canada that, in his opinion, was related to such production. This schedule, which was filed as Exhibit 48, shows that certain exploratory work was related to the production of oil or gas in 1951. The exhibit shows the nature of the exploratory work done, the portion of its relationship to a well, the well to which it was related and the status of the related well. The percentage of relationship of the work done to the production of the well was determined by Mr. Macgregor, who also determined the well to which the exploratory work was said to be related. Mr. Macgregor gave a detailed explanation of the various items set out in Exhibit 48 and his reason for his conclusion in each case. Most of the work referred to in the exhibit related to capped gas wells and I need not discuss it. But there were three and a half miles of seismic survey work in the west side of the Leduc field done in July of 1951 and there were late charges in respect of a velocity survey on Imperial Leduc 253, which Mr. Macgregor considered to be related to Imperial Leduc 394 and Imperial Leduc 395, both producing wells. The work resulted in the selection of the drilling sites for the two wells and Mr. Macgregor felt that its cost should be attributed to them in equal proportions of 50 per cent to each.

Mr. Macgregor was emphatic in his opinion that, apart from the exploratory work referred to in Exhibit 48, all the other exploratory work done in Western Canada in 1951 was not related to the production of oil or gas from any well in 1951. Thus, there was no relationship between any of the dry holes drilled in 1951 and the production of oil or gas in that year. Nor was there any such relationship in the case of such exploratory work as magnetometer, gravity-meter, photogeology and surface geology surveys. And there was no such relationship in the case of wells where the drilling was incomplete at the end of 1951, or in the case of any of the late charges incurred in 1951 in respect of wells drilled previously, except as set out in Exhibit 48.

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The evidence of Mr. Gibson was of a similar nature. He stated that he had made an examination of all the development work carried on by the appellant in Western Canada in 1951 with a view to determining what part of it related to production of oil and gas in that year. He had caused a list to be prepared of the wells drilled by the appellant in 1951. This was filed as Exhibit 60 and shows 289 oil wells, 2 gas wells and 12 dry holes. There was also a list, filed as Exhibit 61, showing the development preparatory costs incurred by the appellant in 1951 in respect of 77 wells that were incomplete at the end of the year and also 213 cases of late charges incurred by the appellant in 1951 in respect of wells drilled previously. There was a further list, filed as Exhibit 62, showing preparatory costs and late charges in respect of all wells including shut-in oil wells and capped gas wells. Mr. Gibson also prepared a schedule, filed as Exhibit 63, showing that certain development work, although resulting in dry holes, was related to the production of oil or gas in 1951. The exhibit shows, as Exhibit 48 did, the nature of the work, the portion of its relationship to a well, the well to which it was related and the status of the related well. Mr. Gibson gave a detailed explanation of the items set out in Exhibit 63 and his reason for his conclusion in each case. Thus, while Imperial Woodbend 15, one of the dry holes referred to in Exhibit 63, was an incomplete development dry hole, the information from it led to the selection of the site for Imperial Woodbend 78, a producing oil well, and Mr. Gibson felt that 25 per cent of the cost of the incomplete dry hole should be attributed to it. And there were late charges at development dry holes at Imperial Amelia 53 and Imperial Opal 35 in the course of which information was obtained that was related to the locations of Imperial Amelia 98 and Imperial Opal 43 respectively, both producing oil wells, and Mr. Gibson felt that a portion of such charges should be attributed to these wells and put the portions at 15 per cent and 10 per cent respectively.

Mr. Gibson was definite in his opinion, based on his examination of the appellant's records and his own knowledge of its development work in Western Canada in 1951, that the dry holes drilled by it in 1951 did not make any contribution to any of the appellant's production of oil and gas in 1951. And his answer was the same, subject to his references to the items set out in Exhibit 63, with regard to

dry holes that were incomplete at the end of the year and late charges in 1951 at development dry holes drilled previously.

Mr. Roliff also produced a summary, filed as Exhibit 74, which showed all the related exploratory work in 1951 in Eastern Canada which, in his opinion, contributed to the appellant's production of oil or gas in 1951 or to a shut-in well. This exhibit, like Exhibits 48 and 63, showed the nature of the related drilling and exploratory effort, the portion of its cost that was related, the well to which it was related and the status of the related well. Most of the items in Exhibit 74 relate to capped gas wells so that I need not refer to them. But there were two items that related to producing wells. There were late charges at a development dry hole at Imperial Becher 54 and Imperial Becher 57, both producing oil wells, and Mr. Roliff put the portions of such late charges that were attributable to them at 10 per cent and 5 per cent respectively. And there were late charges at Imperial Duthill 5 and 6, which were exploratory dry holes, that were related, in Mr. Roliff's opinion, to Imperial Duthill 7, a producing gas well, and he considered that 30 per cent of the charges were attributable to that well. The reasons for Mr. Roliff's attributions of these portions of costs were given in detail by him but it is sufficient to say, generally, that although the drilling resulted in dry holes some valuable information had been obtained in the course of the drilling that led to the location of a producing well. That was the justification for charging some of the cost of the unsuccessful work as an expense of the producing well to which the work was related.

Mr. Roliff stated that he had examined the records of the appellant as to its exploration and development work in 1951 in Eastern Canada with a view to determining whether it had any relationship to its production of oil or gas in 1951 or to the discovery of a shut-in oil well or a capped gas well and he was specific in his statement that Exhibit 74 contained a list of all the exploration work done and all the dry holes drilled in 1951 in Eastern Canada that had any relationship to any production of oil or gas by the appellant in 1951. It follows, of course, that, in his opinion, the cost of all the rest of the exploration work, other than that which resulted in a successful well, and of all the dry holes

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incurred in 1951 was not attributable to any of the appellant's production of oil or gas in that year.

The opinion of Mr. E. H. Vallat, an experienced oil consultant, confirmed the opinions of Mr. Macgregor, Mr. Gibson and Mr. Roliff, as respectively expressed in Exhibits 48, 63 and 74. He had examined these exhibits, had studied the appellant's records, examined the maps and considered the exploratory surveys and drillings and the development drillings. He agreed that in each case referred to in the exhibits the work done was related to the successful well referred to in the sense that some part of its cost was attributable to it. Only in one case would he have assigned a greater percentage of cost to the related well. In many of the cases he considered that the allotment of attributable percentage of cost had been too high and in the others he agreed with the author of the exhibit. Generally, therefore, he considered that the allotments of percentages, although some were on the high side and one was a bit low, were reasonable.

Thus I find as a fact that the exploratory costs referred to were not related to the production of oil or gas from any of the appellant's wells. They were not items of expense that could properly be charged against any producing well. Consequently, it could not be said that they were reasonably attributable to any production. They were not. The details of the exploratory dry hole drilling and other costs, and of the incomplete drilling, preparatory and other costs are set out in columns 11 and 12 of Exhibit 77 and columns 4 and 5 of Exhibit 78. They amount to \$19,296,892.53 for Western Canada and \$695,695.80 for Eastern Canada, making a total of \$19,992,588.33. There is no dispute about the amount. In view of the evidence I conclude that the Minister had no right to deduct this amount or any portion of it from the amount of the appellant's profits as shown by the accounts of the wells in Exhibits 79a, 79b and 79c.

It is clear from this conclusion that I reject the contention of counsel for the respondent that subsection (5) of section 1201 of the Regulations requires the deduction of this amount. In my opinion, it does not. Counsel submitted that since the words "in respect of the well," which had appeared at the end of subsection (4) of section 1201, as it stood prior to its amendment, were omitted from subsection (5)

of the present section, which took its place, subsection (5) now requires the deduction of all the appellant's costs, exploratory and otherwise, that it deducted for income tax purposes under the authority of section 53 of the 1949 Act, regardless of whether they were related to the production of any oil or not. In my opinion, the argument is untenable. It does violence to the term "reasonably attributable" which is such an important feature of section 1201. This fact did not disturb counsel. Indeed, he submitted that the omission of the words eliminated the concept of "reasonably attributable" from section 1201. A construction that renders such terms meaningless is so unreasonable that it ought not to be accepted without clear and compelling terms. There are no such terms. The reason for the omission of the words is a simple one. The purpose of the amendment of section 1201 was to provide a base for the computation of the deductible allowance permitted by section 11(1)(b) of the Act that was reduced from that fixed by the section in its original form by the aggregate of the losses of the loss producing wells in cases where there were more than one well and some wells were operated at a loss. This was done by the enactment of subsection (4). That was the whole purpose of the amendment of section 1201 and the omission of the words "in respect of the well" from subsection (5) was merely a consequential amendment. Once subsection (4) was enacted the words had to be eliminated from subsection (5) in order to make it conform to the new subsection (4). Moreover, the construction put on subsection (5) by counsel for the respondent is inconsistent with the basic idea of section 1201 of the Regulations that the profits of a taxpayer for a year that are to be considered are those that are "reasonably attributable" to the production of oil or gas from the wells in that year, each well to be dealt with individually. How could it then be reasonably said that in computing the profits in a year from an individual producing well subsection (5) compelled the deduction of the total amount of expenditures that was deducted for income tax purposes under the authority of section 53 of the Act? If that was done in the case of one well the same deduction would have to be made in the case of every other well. In my opinion, subsection (5) does not contemplate such an absurdity. It is clear from the use of the words "amounts,

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if any” in the subsection that it was not contemplated that the total amount of the expenditures permitted to be deducted for income tax purposes by section 53 of the 1949 Act would have to be deducted in determining the base for the computation of the deductible allowance. If that had been intended, the word “amount” would have been used instead of the word “amounts”. Moreover, the use of the words “if any” clearly indicates that there could be cases of individual wells where no deduction of any amount under section 53 of the Act would be required as, for example, in the case of wells operating for the whole of a year without any drilling costs having been incurred in it. Thus, the use of the words “amounts, if any” in subsection (5) negatives, as I have already stated, the contention put forward by counsel for the respondent. Moreover, it is a fundamental principle of construction that effect must be given to all the terms used. Thus, all the subsections of section 1201 of the Regulations must be read together so that full effect may be given to each. The contention of counsel for the respondent runs counter to this principle. For the reasons given, I have no hesitation in rejecting it.

Only one other subject remains for consideration, namely, whether the Minister, in determining the base for the computation of the appellant’s deductible allowance, had any right to deduct the sum of \$8,642,196.84, which is described in Exhibit 76 as “Increase (decrease) in unrealized profit in Supply, Manufacturing and Marketing inventories.” Mr. McLellan explained that the amount represented the difference between the unrealized profit of the appellant’s inventory at the beginning of the year and the unrealized profit of its inventory at the end of the year and that it relates solely to inventory that has passed away from the appellant’s producing department to another department such as the manufacturing or marketing department. It does not include the amounts of the opening or closing inventories of oil or gas still in the hands of the producing wells for such amounts, necessarily small, have already been taken into account as shown by the accounts in Exhibits 79a, 79b and 79c.

It is important, in my opinion, to keep in mind that we are not here concerned with the manner in which the appellant’s taxable income as a whole should be calculated. What

must be determined is the amount of the deductible allowance to which the appellant is entitled under section 11(1)(b) of the Act and section 1201 of the Regulations and this involves the ascertainment of the base for the computation of the allowance. Mr. Richardson was specific in stating that if each well was treated as a separate entity and he was asked to compute its profit he would not in computing it make any adjustment in respect of any inventory which had been moved from it to some other department of the appellant. I agree.

Here, I express the opinion that it is of the utmost importance in the present case to keep in mind the fact that the appellant is not engaged exclusively in the production of oil or gas but is what is called an integrated oil company, that is to say, it not only produces oil and gas but also engages in other activities, including the operation of refineries, the conduct of a marine oil transport service and the marketing of petroleum products. It seems elementary that this fact should not be allowed to operate to its prejudice. It should be entitled to the same deductible allowance under section 11(1)(b) of the Act and section 1201 of the Regulations as that to which it would have been entitled if it had been engaged only in the production of oil or gas, either from one well or several wells. In my opinion, such a result is possible in the appellant's case only if each well is dealt with individually and the amount of deductible allowance to which the appellant is entitled, if any, in respect of it is determined accordingly. That is why the accounts of each well were kept separately as shown by Exhibits 79a, 79b and 79c. On this basis of accounting, which I think was a proper one, the inventory adjustment of \$8,642,196.84 was not warranted, for the inventory to which it relates had all moved out from the well to some other department as if it had been sold to it and was no longer in its hands. This was the opinion of the accountancy witnesses based on the assumption made. What happened to the inventory in the hands of the other departments and how it affected the computation of the appellant's taxable income as a whole is outside the scope of the present enquiry. Consequently, since the amount in question relates solely to inventory that has been delivered by the well to some other department in the same way as if it had been sold to a third person and is no longer in its hands, it should

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not be taken into account in determining the profits reasonably attributable to the production of oil or gas from such well. That amount must be determined separately in the case of each well as if it were a separate entity. Consequently, I find that the Minister had no right to deduct the amount of \$8,642,196.84.

It follows from what I have said that the amount of the deductible allowance to which the appellant was entitled in 1951 under section 11(1)(b) of the Act and section 1201 of the Regulations is \$10,334,995.74, being 33½ per cent of the base of \$31,004,987.24 resulting pursuant to subsection (4) of section 1201. The Minister was, therefore, in error in allowing only \$790,067.36 and the assessment appealed against must in respect of this item be set aside accordingly. The appeal will, therefore, be allowed with costs.

Judgment accordingly.

N.B.—The judgment herein was reversed by the Supreme Court of Canada [1960] S.C.R. 735. The Court, consisting of Chief Justice Kerwin and Taschereau, Locke, Cartwright, Martland, Judson and Ritchie, JJ., was unanimous in allowing the deduction of the inventory adjustment of \$8,642,196.84 from the amount of the profits claimed by the taxpayer and in dismissing its counterclaim that its losses from its loss producing wells should not have been deducted. By a majority the Court also allowed the deduction of the drilling, exploration and other costs of \$19,992,588.33, with Cartwright, Martland and Ritchie, JJ., dissenting, who would have dismissed the appeal so far as this item was concerned.

BETWEEN:

ETHEL V. GRAYSONSUPPLIANT;

AND

HER MAJESTY THE QUEENRESPONDENT.

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Crown—Petition of Right—Expropriation—Expropriation Act, R.S.C. 1952, c. 106, ss. 9(1), 23, 34—The Land Titles Act, R.S.S. 1953, c. 108, s. 96—Expropriation complete on filing plan and description of property—Canada has most arbitrary system of expropriation—Compliance with requirements of section 9(1) of Expropriation Act essential to validity of expropriation.

The suppliant brought a petition of right for compensation for the alleged expropriation of a portion of her property consisting of land along the shore of Buffalo Pound Lake near Moose Jaw in Saskatchewan and two summer cottages on a point jutting into the lake. Counsel for the suppliant sought to prove the expropriation by filing two documents. The first was a plan of survey under the heading "Buffalo Pound Lake Storage Project", showing the areas required to be flooded in order to raise the level of the lake, including the portion of the suppliant's land required for the purpose outlined on the plan in red. This plan was approved by certain officers of the Province of Saskatchewan and also carried the signature of the Superintendent of Water Development under the Prairie Farm Rehabilitation Act. The plan was filed under section 96 of *The Land Titles Act* of Saskatchewan in the Land Titles Office at Moose Jaw. The other document was a Notice of Expropriation giving notice that the area required for the Buffalo Pound Lake Reservoir and Right of Way as marked on the plan of survey had been taken by and was vested in Her Majesty the Queen in Right of Canada.

On the filing of these documents counsel for the respondent stated that the Department of Justice had discovered that there was substantial doubt whether the requirements of section 9 of the *Expropriation Act* had been complied with, that the land titles office had refused to accept further plans and descriptions on the ground that titles had vested in the Crown by the issuance of certificates of title and that the Crown felt duty bound to put the matter before the Court so that it might consider whether there was an expropriation which could support a judgment authorizing payment under section 34 of the *Expropriation Act*.

Held: That under section 9(1) of the *Expropriation Act* a man's land can be lawfully taken from him without his consent, and even without his knowledge or any notice to him, merely by the deposit of record in the proper land titles or land registry office of a duly signed plan and description of the land, that this may be done whenever the Minister of the department charged with the construction and maintenance of the public work for which the land is to be taken deems it advisable to do so, that on such deposit the expropriation of the land is complete without any further act by anyone, that whatever right, title or interest the former owner, or any other person had in or to the land is immediately extinguished and the land is automatically vested in Her Majesty the Queen, free and clear from any claims to or encumbrances upon it and that all that is left to the former owner of the

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land, or a person having a claim to or an encumbrance upon it, is a claim to compensation, which by section 23 of the Act is made to stand in the stead of the land.

2. That Canada has the most arbitrary system of expropriation of land in the whole of the civilized world.
3. That since a man's land can be validly taken from him by compliance with the requirements of section 9 of the *Expropriation Act*, no matter how arbitrary its provisions are, it is essential to the validity of an expropriation under the Act that its requirements have been strictly complied with and that if they have not been so complied with the purported expropriation is invalid.
4. That in the present case the requirements of the section have not been complied with.
5. That it is doubtful whether the plan of survey referred to is the kind of plan contemplated by the section, that the plan contemplates the registration of the portion of the property that is outlined on the plan in red on the application of the Superintendent of Water Development under the *Prairie Farm Rehabilitation Act* and there is no authority under section 9 of the *Expropriation Act* for the deposit of a plan having such effect.
6. That the Notice of Expropriation was not in any sense a description of the land within the requirements of the section.
7. That, since the requirements of section 9 have not been complied with, there has not been a valid expropriation of any portion of the suppliant's lands and that, since the portion of the suppliant's land that was alleged to have been expropriated was not in fact expropriated, she is still its owner and not entitled to any compensation for it and there is no basis on which to found her petition of right.
8. That the suppliant is not entitled to any of the relief sought by her.

PETITION OF RIGHT.

The petition was heard by the President of the Court at Regina.

L. McTaggart, Q.C., and *R. J. Rushford* for suppliant.

R. L. Brownridge, Q.C., and *J. G. Schollie* for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (February 13, 1959) delivered the following judgment:

In her petition of right the suppliant claims the sum of \$23,475 on the ground that a portion of her property was expropriated by the respondent on May 6, 1956, under the *Expropriation Act*, R.S.C. 1952, Chapter 106, and that no compensation has been paid to her for its loss.

On May 6, 1956, and for some time prior thereto, the suppliant was the registered owner of the following land namely:

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All that portion of Section Nine (9) in Township Nineteen (19) in Range Twenty-five (25) West of the Second Meridian in the Province of Saskatchewan, in the Dominion of Canada, which is not covered by the waters of Buffalo Lake, containing Four Hundred and Seventy acres (470) more or less, according to a Plan dated the 31st day of March, A.D. 1883 and of Record in the Department of the Interior, approved and RESERVING unto the Canadian Pacific Railway all coal that may be found within upon or under said land and the right to enter and remove same, as reserved in Transfer T.5724. Minerals included, except coal.

This land comprises the whole of the South West Quarter of the section, those portions of the South East, North East and North West Quarters that lie south of the south shore of Buffalo Pound Lake and a small portion of the North East Quarter that lies north of the north shore. The remainder of the section is covered by the waters of the Lake.

It is a portion of the land so described that is alleged to have been expropriated on May 6, 1956. Counsel for the suppliant sought to prove the expropriation by filing two documents. One of these is a plan of survey, dated October 25, 1955, which was filed as Exhibit 3. It is described under the heading "Buffalo Pound Lake Storage Project" as a plan showing the survey of the land required for the flooded area in the lands specified therein, including the South East Quarter and the North Half of Section 9 in Township 19 in Range 25, West of the 2nd Meridian, being part of the land owned by the suppliant. The plan shows the areas on each side of Buffalo Pound Lake that are required to be flooded in order to raise the present level of the Lake to the proposed higher one. Included in such areas are the portions of the suppliant's land that are required for this purpose. They are outlined on the plan in red. The plan carries the certificate of M. R. Skelton, a Saskatchewan land surveyor, that the survey represented by the plan was made by him and that the plan is correct and true and the certificate is signed by him. The plan was approved by certain officers of the Province of Saskatchewan, namely, the Chief Engineer of the Water Rights Branch of the Department of Agriculture on November 2, 1955, the Director of Lands of the Department of Agriculture on November 4,

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1955, and the Director of Surveys of the Department of Highways and Transportation on November 8, 1955. The plan also carries the signature of the Superintendent of Water Development under the *Prairie Farm Rehabilitation Act (Canada)* as Applicant under the date October 27, 1955. I should also set out the Legend on the plan. It is as follows:

Distances are in feet and decimals thereof. Iron posts 30" × $\frac{3}{4}$ " were planted at all traverse stations, marked R/W with the number of the station and are shown by a hollow black circle. Monuments found are shown by a black diamond. Monuments re-established are shown by a vermilion square.

Portions to be registered under the plan are outlined in red.

I have already pointed out that the portions of the suppliant's property required to be flooded are outlined on the plan in red. The plan was filed under section 96 of *The Land Titles Act* of Saskatchewan, R.S.S. 1953, Chapter 108, in the Land Titles Office at Moose Jaw, in the Province of Saskatchewan on March 21, 1956, as No. EX774.

The other document on which counsel for the suppliant relied is described as a "Notice of Expropriation". It was filed as Exhibit 2. I set it out in full as follows:

In the Matter of the Expropriation Act, Being Chapter 106, of the Revised Statutes of Canada, 1952.

NOTICE OF EXPROPRIATION

Lands to be acquired for the purpose of a reservoir and right of way in connection with the Buffalo Pound Lake Project in the Province of Saskatchewan.

TAKE NOTICE that the area required for the Buffalo Pound Lake Reservoir and Right of Way as marked out in red on a plan of survey registered as No. EX. 774, the possession of which has been taken by and for Her Majesty the Queen in Right of Canada for the purpose of a reservoir and right of way is vested in Her Majesty the Queen, Her Heirs and Successors in Right of Canada, by virtue of the provisions of the Expropriation Act being Chapter 106 of the Revised Statutes of Canada, 1952.

G. M. Taggart
 Deputy Minister of Agriculture

To: The Registrar
 Moose Jaw Land Registration District
 Moose Jaw, Saskatchewan.

and

To Whom it May Concern

This notice was registered in the Land Titles Office for the Moose Jaw Land Registration District at Moose Jaw in Saskatchewan on May 9, 1956, as No. EB 6645

On the filing of these documents counsel for the respondent informed the Court that he had been instructed by the Deputy Attorney General of Canada to make a statement to the Court. It was to the following effect, namely: that after the petitions of right had been received the Department of Justice discovered that there was substantial doubt whether the plans and descriptions complied with the requirements of section 9 of the *Expropriation Act*; that no issue was made of this point in the Crown's statement of defence on the assumption that the matter could be corrected by filing confirming plans and descriptions; that the land titles office had wrongfully, in the Department's view, refused to accept further plans and descriptions on the ground that titles had vested in the Crown by the issuance of certificates of title; and that the Crown now felt duty bound to put the matter before the Court in view of the decision in *The King v. Hooper*¹ so it might consider whether there was an expropriation which could support a judgment authorizing payment under section 34 of the *Expropriation Act*.

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This statement raised a question of great importance, for if the requirements of section 9 of the *Expropriation Act* have not been complied with the suppliant's property has not been expropriated, with the result that she is still its owner and is not entitled to any compensation for its loss.

The relevant provisions of section 9 of the *Expropriation Act* must now be considered. Subsection (1) of the section reads as follows:

9. (1) Land taken for the use of Her Majesty shall be laid off by metes and bounds; and when no proper deed or conveyance thereof to Her Majesty is made and executed by the person having the power to make such deed or conveyance, or when a person interested in such land is incapable of making such deed or conveyance, or when, for any other reason, the Minister deems it advisable so to do, a plan and description of such land signed by the Minister, the deputy of the Minister or the secretary of the department, or by the superintendent of the public work, or by an engineer of the department, or by a land surveyor duly licensed and sworn in and for the province in which the land is situate, shall be deposited of record in the office of the registrar of deeds for the county or registration division in which the land is situate, and such land, by such deposit, shall thereupon become and remain vested in Her Majesty.

Under these provisions a man's land can be lawfully taken from him without his consent, and even without his

¹ [1942] Ex. C.R. 193.

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knowledge or any notice to him, merely by the deposit of record in the proper land titles or land registry office of a duly signed plan and description of the land. This may be done whenever the Minister of the department charged with the construction and maintenance of the public work for which the land is to be taken deems it advisable to do so. On such deposit the expropriation of the land is complete without any further act by anyone. Whatever right, title or interest the former owner, or any other person, had in or to the land is immediately extinguished and the land is automatically vested in Her Majesty The Queen free and clear of any claims to or encumbrances upon it. All that is left to the former owner of the land, or a person having had a claim to or an encumbrance upon it, is a claim to compensation, which by section 23 of the Act is made to stand in the stead of the land. And I might add here that the settlement of claims to compensation is frequently unconscionably delayed.

I have frequently called attention to these provisions of the law and stated that Canada has the most arbitrary system of expropriation of land in the whole of the civilized world. I am not aware of any other country in the civilized world that exercises its right of eminent domain in the arbitrary manner that Canada does. And, unfortunately, the example set by Canada has infected several of the Canadian provinces in which a similar system of expropriation has been adopted.

It is obvious that since a man's land can be validly taken from him by compliance with the requirements of section 9 of the *Expropriation Act*, no matter how arbitrary its provisions are, it is essential to the validity of an expropriation under the Act that its requirements have been strictly complied with. If they have not been so complied with the purported expropriation is invalid.

In the present case the requirements of the section have not been complied with. It is doubtful whether the plan filed as Exhibit 3 is the kind of plan contemplated by it. This doubt is not based on the fact that the plan was filed under a section of *The Land Titles Act* of Saskatchewan. That would not by itself necessarily affect its validity as a plan under section 9 of the *Expropriation Act* if it were otherwise a plan of the lands to be taken for the proposed

public work. The objection to it is that it seems to contemplate the registration of the portion of the property that is outlined on the plan in red on the application of the Superintendent of Water Development under the *Prairie Farm Rehabilitation Act*. There is no authority under section 9 of the *Expropriation Act* for the deposit of a plan having any such purported effect. But even if it could be validly argued that the plan meets the requirements of the section, so far as a plan of the land is concerned, that would not be enough, for the section requires the deposit of a description as well as a plan of the land. And I have no hesitation in finding that no description of the land, as required by the section, was ever deposited. The notice of expropriation filed as Exhibit 2 is not in any sense a description of the land within the requirements of the section. It is merely a statement of a conclusion that the land had been expropriated and been vested in Her Majesty The Queen by virtue of the *Expropriation Act* and it was made on the assumption that the requirements of the Act had been complied with, an assumption that was unwarranted.

Consequently, I must find that, since the requirements of section 9 have not been complied with, there has not been a valid expropriation of any portion of the suppliant's land, from which it follows that, since the portion of the suppliant's land that was alleged to have been expropriated was not in fact expropriated, she is still its owner and is, therefore, not entitled to any compensation for its loss and there is no basis on which to found her petition of right.

When counsel for the respondent had made his statement to the Court I expressed the opinion that I have just stated, but counsel for the suppliant requested that I should hear the evidence as to the value of the property alleged to have been expropriated. I did so for the reason that all the witnesses were present and some of them had come from distant places and also for the reason that if there should be an appeal from this judgment and it should be held on such appeal that the requirements of section 9 of the *Expropriation Act* had been complied with my estimate of the value of the property in question would stand for what it might be worth and it would not be necessary to refer the matter back to me for trial. On that understanding I heard the evidence of the witnesses as to the value of the said property.

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[Here the President reviewed the evidence of the witnesses as to the value of the portion of the suppliant's property alleged to have been expropriated and estimated its value at \$11,000 and continued:]

This is, in my judgment, the top limit of the amount of the compensation to which the suppliant would be entitled if the expropriation were valid and the largest award that I would make accordingly. In my opinion, it would fully cover all the factors of the value of the property to the suppliant as at May 9, 1956, to which she could reasonably be entitled.

Since the suppliant has been in undisturbed possession of the property without paying any rent she would not be entitled to any interest.

And this is not a case for any additional allowance for compulsory taking within the ambit for such an allowance set by the unanimous judgment of the Supreme Court of Canada in *The King v. Lavoie*¹.

But, of course, in view of my finding that the requirements of the law for a valid expropriation of the property have not been complied with I cannot make any award of compensation that could lawfully be paid out of the Consolidated Revenue Fund pursuant to section 34 of the *Expropriation Act*.

It follows, for the reasons given, that there must be judgment declaring that the suppliant is not entitled to any of the relief sought by her in her petition of right. But, in view of the unusual circumstances of the case, neither party will be entitled to costs.

Judgment accordingly.

¹ (December 18, 1950, unreported).

BETWEEN:

AILEEN M. DREWSUPPLIANT;

AND

HER MAJESTY THE QUEENRESPONDENT.

AND

BETWEEN:

HER MAJESTY THE QUEEN, on)
the information of the Deputy Attor-) PLAINTIFF;
ney General of Canada)

AND

AILEEN M. DREWDEFENDANT.

Expropriation—Crown—Petition of Right—Expropriation Act, R.S.C. 1952, c. 106, ss. 3, 9, 16, 23—Department of Transport Act, R.S.C. 1952, c. 79, ss. 9, 15—Regulations Relative to the Acquisition of Land by Government Departments, Order in Council P.C. 4253, dated October 9, 1952, ss. 6, 7(1)—Financial Administration Act, S. of C. 1951 (2nd sess.), c. 12, now R.S.C. 1952, c. 116, ss. 5(1), 30, 39—Onus on suppliant to prove alleged agreement—Contract involving provision of funds by Parliament requires authorization by Parliament—Minister cannot bind Crown unless authorized by Order in Council or by Statute—No power in Minister to pay amount of valuation claimed by suppliant—Owner not entitled to interest while in possession of property without payment of rent—Additional allowance for compulsory taking an unwarranted bonus—Case not within ambit of rule in The King v. Lavoie.

The petition of right and the information action were tried together. The information proceedings were taken for an adjudication of the amount of compensation to which the defendant was entitled for the expropriation of her property which, together with other properties, was taken for the purpose of the Malton Airport. Subsequently, she brought a petition of right for the recovery of \$17,330.50, being the amount of the valuation of her property made by Mr. C, alleging that there was an agreement between Her Majesty the Queen, acting through the Minister of Transport, and herself that Mr. C should appraise her property and that both parties should be bound by his valuation. Mr. C had been appointed by the Department of Transport to appraise the suppliant's property and other properties taken for the Malton Airport. The appointment was made on the recommendation of Mr. P, the Member of Parliament for the constituency in which the expropriated properties were situate, and he obtained agreements by the former owners, including the suppliant, that they would accept the valuations to be made by Mr. C. When the valuations were made they were out of line with other valuations that had been made and with settlements that had been made in a large number of cases in the Malton area and they were unacceptable to the Department. The Deputy Minister of Transport informed the suppliant accordingly and increased the Department's offer for the property from the original offer of \$9,200 to \$11,200. She declined this increased offer and launched her petition.

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It was submitted for her that there was an agreement by the Minister on behalf of Her Majesty with Mr. P on her behalf and that of the other owners that the valuations made by Mr. C should be binding on both parties and, secondly, that Mr. P had been authorized by the Minister to make an agreement with her and the other owners and clothed with ostensible authority to do so and that Mr. P had made such an agreement. There was a conflict of evidence on the issues raised in the petition and a conflict of expert opinion on the value of the expropriated property.

Held: That the Court should not conclude, in the absence of clear evidence, that the Minister agreed to be bound in advance by whatever valuations the appraiser might make.

2. That the burden of proof of the alleged agreement lay on the suppliant and she has not discharged it.
3. That there is no support for the submission that the Minister clothed Mr. P with authority to make an agreement that would be binding on both parties, that he was never an agent of the Government and the Minister never held him out as such.
4. That even if it had been proved that the Minister had agreed to accept the appraiser's valuations as alleged this would not have entitled the suppliant to the relief sought by her.
5. That if a contract which involves the provision of funds by Parliament is to possess legal validity it requires that Parliament should have authorized it, either directly or under the provision of a statute.
6. That a Minister cannot bind the Crown unless authorized by order in council or by statute.
7. That, under sections 6 and 7(1) of the "Regulations Relative to the Acquisition of Land by Government Departments", since Mr. C's appraisal exceeded \$15,000, the Minister had no power to pay the amount of compensation claimed by the suppliant without the authority of the Treasury Board.
8. That the Regulations are valid and that the Minister had no power to enter into the alleged agreement.
9. That the Minister was prevented from entering into a valid agreement of the kind alleged by reason of section 30(1) of the *Financial Administration Act*.
10. That the suppliant is not entitled to any of the relief sought by her.
11. That the amount of \$11,200 offered to the defendant would cover every factor of the value of the property to her that could reasonably be considered.
12. That since the defendant remained in possession of the property until December 1, 1958, without payment of rent she is not entitled to interest up to that date.

After the date of delivery of judgment herein counsel for the defendant in the information action requested that the amount of the award of \$11,200 should be increased by an additional allowance of 10 per cent for compulsory taking.

Held: That the amount of the award in the present case is so ample to cover every factor of the value of the expropriated property to its former owner that could reasonably be considered that any additional allowance for compulsory taking would be an unwarranted bonus. *The Queen v. Sisters of Charity* [1952] Ex. C.R. 113 at 131 and *The Queen v. Supertest Petroleum Corporation Limited* [1954] Ex. C.R. 105 at 143 followed.

2. That the case does not fall within the ambit of the rule laid down by the unanimous judgment of the Supreme Court of Canada in *The King v. Lavoie* (December 18, 1950, unreported).
3. That it is reasonable to assume that the increased offer of \$11,200 included an additional amount of 10 per cent and that it would be highly improper to add another additional allowance of 10 per cent to an amount that already includes it.
4. That even if there were jurisdiction to alter the amount of the judgment it would not be altered and that the request of counsel for the defendant that the amount of the award be increased by an additional allowance of 10 per cent for compulsory taking is refused.

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PETITION OF RIGHT and INFORMATION for adjudication of amount of compensation for expropriated property.

The petition of right and the information were tried together before the President of the Court at Toronto.

F. A. Brewin, Q.C., and *J. C. Skells* for suppliant and defendant.

P. B. C. Pepper and *P. M. Troop* for respondent and plaintiff.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (May 19, 1959) delivered the following judgment: and, subsequently (June 4, 1959), dealt with the request of counsel for the defendant in the following addition:

The petition of right and the information were tried together.

Both actions stem from the expropriation of the suppliant's property, described in paragraph 1 of the petition and paragraph 2 of the information. Together with many other properties it was taken under the *Expropriation Act*, R.S.C. 1952, Chapter 106, for the purpose of the Malton Airport and the expropriation was completed on February 12, 1954. The compensation for it has not been agreed upon.

In her petition the suppliant seeks to recover the sum of \$17,330.50, being the amount of the valuation made by Mr. J. E. S. Clare, on the ground that there was an agreement between Her Majesty acting through the Minister of Transport and herself that Mr. Clare should appraise the

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property and both parties should be bound by the amount of his valuation. The other action was brought for an adjudication of the amount of compensation to which the defendant is entitled. By the information the plaintiff offered the sum of \$9,200 but the defendant by her statement of defence claimed \$20,597.10. Since the launching of the action the plaintiff has paid the defendant \$10,080 on account, \$6,000 on May 5, 1958, and \$4,080 on December 1, 1958.

In a sense this is a test case, there being ten other cases in which the circumstances are similar.

Although the petition of right was later in point of time than the information I shall deal with it first.

It is desirable to set out in chronological order the facts on which the suppliant relies. They involve, in addition to the suppliant herself and the other former owners, Mr. John C. Pallett, the Member of Parliament for the Constituency of Peel in which the properties are situate, the Honourable George Hees, the Minister of Transport, hereinafter referred to as the Minister, Mr. Stephen C. Booth, the Assistant Deputy Minister of Transport, and Mr. J. E. S. Clare, a real estate appraiser of Port Credit recommended by Mr. Pallett and appointed by the Minister to appraise the properties under the circumstances set out later.

Mr. Pallett is a barrister and solicitor practising at Port Credit as a member of the firm of Pallett, Pallett and Lane. Prior to the general election of 1957 he was the suppliant's solicitor and in that capacity prepared her statement of defence in the action commenced by the information. After the general election in June, 1957, which resulted in a change of the administration at Ottawa, he dissociated himself from that capacity. Thereafter his interest was political. There was general dissatisfaction in the Malton area with the manner in which the settlement of claims for compensation was being conducted and he was anxious to find a solution of the difficulties, particularly in the case of the veterans whose claims had not been settled. There were at the time fourteen or fifteen such claims, including the suppliant's. Soon after the election, indeed, prior to July 19, 1957, as appears from a letter of that date, filed as Exhibit 21, he saw the Minister at Ottawa and suggested to him that in the interests of public goodwill the matters in dispute could be settled very quickly by the appointment of an

independent person acceptable to the Government and his constituents to determine the value of the expropriated properties. Following this suggestion he saw Mr. Booth who had been instructed that Mr. Pallett would get in touch with him. This was Mr. Pallett's first meeting with Mr. Booth. It took place in Mr. Booth's office in the Hunter Building at Ottawa. Mr. Pallett was concerned over the situation of the home owners at Malton, about twelve or thirteen in number, and Mr. Booth had been instructed to do whatever was practicable to bring about a solution of the problem. Mr. Pallett took the stand that the amounts of the owners' claims were not unreasonable and suggested that the Department of Transport should settle them on the basis of the amounts claimed. There was a general discussion of possible means of settlement of the outstanding disputes.

Following this meeting the Minister wrote to Mr. Pallett on July 19, 1957, to the effect that, subject to certain conditions, the Department would be glad to arrange a further meeting to discuss the matter with all concerned, including officials of the Veterans Land Act, and saying:

I would not like to commit myself at this stage to arbitration in the sense of appointing an independent appraiser acceptable to both the veterans and ourselves until after this meeting takes place. However, I would certainly be prepared to consider this possibility further if the veterans were prepared to agree by contract in advance the report of such an independent appraiser was final and binding on them.

It was Mr. Booth's understanding that Mr. Pallett would get the dissatisfied owners together and that he, Mr. Booth, should attend such meeting.

But Mr. Pallett had a different idea. He called a meeting of the dissatisfied former owners at the home of Mrs. Murray. There were, according to the evidence, from fifteen to twenty persons at this meeting. The date was prior to August 27, 1957. At this meeting Mr. Pallett suggested a plan to clear up the disputed situation. He said that he had been talking to the Minister and had put a plan before him that would finish the business, namely, to get an independent valuator approved by the Department and the Minister, and he assured the meeting that the appraiser would be a reputable and reliable real estate man. He said that if the

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owners would agree that they would accept a valuation submitted by such a valuator he thought he could get the matter settled. He put it to the meeting that it was his proposal that both the owners and the Department should be bound.

The owners, including the suppliant, were interested in Mr. Pallett's proposal even although they did not know the name of the appraiser and, while there was no great enthusiasm for it, they agreed to accept his plan. They were willing to place their faith in Mr. Pallett that matters would be cleared up.

Then Mr. Pallett wrote to Mr. Booth on August 27, 1957, which letter was filed as Exhibit 19, confirming a telephone conversation with him and enclosing a list of the names of the persons interested and agreeable to having an arbitrator or a new valuator whose finding should be binding upon both parties.

On August 29, 1957, Mr. Booth wrote to Mr. Pallett informing him that he had discussed his proposal for the disposition of the matter by arbitration with Mr. R. G. MacNeill of the Treasury Board staff and that he felt that the proposed course would be impracticable for a number of reasons and also telling him that he had discussed the question with the Deputy Minister of Justice who saw many practical difficulties. The letter, filed as Exhibit 20, was plainly a rejection of Mr. Pallett's proposal and Mr. Pallett so regarded it. Mr. Booth had discussed the matter with the Minister and it was on his instruction that he had consulted Mr. MacNeill and the Deputy Minister of Justice and the letter of August 29, 1957, was sent with the Minister's knowledge and concurrence.

The next event is an important one. Mr. Pallett met the Minister in his office at the Hunter Building on September 19, 1957. At first the Deputy Minister of Transport was also present but he left the meeting after instructing Mr. Booth to attend. The Minister was insistent on getting on with the Malton business and said that it had to be settled. Mr. Pallett suggested that an independent appraiser should be appointed and that both the Crown and the owners should be bound by his valuations. Mr. Booth reminded the Minister of the advice that he had secured from Mr. MacNeill and the Deputy Minister of Justice and that any recommendations were subject to the approval of the

Treasury Board and, consequently, the Department could not be bound in advance. He also said that he had to advise the Minister that the Minister could not agree that the Crown should be bound by the valuations suggested. Then, with that limitation, the question of the desirability of a new valuation in any event was discussed. Mr. Booth pointed out that the Department was satisfied with the valuations that had been made and that they were valid but since they had all been made under a previous administration the Department would welcome a further valuation if the Minister so decided. He then expressed the view that as such a valuation would involve expense the Department should have some assurance that the owners would accept it. Mr. Pallett was not satisfied with the limitation suggested by Mr. Booth and the Minister said that he would direct a new appraisal valuation. At this stage Mr. Booth interjected that he assumed that the Department would not be bound in advance by such a valuation and Mr. Booth said that the Minister "indicated assent". The question of who should be the appraiser was then discussed. Mr. Pallett said that he would accept any reputable appraiser so long as he was not one of those who had made appraisals for the Department in the area and he suggested the name of Mr. Clare. The Minister then asked Mr. Booth whether that was alright with him and Mr. Booth replied that he would like to check his qualifications and suitability. The Minister then instructed Mr. Booth to get on with the matter as quickly as possible and Mr. Booth then left the meeting. The understanding was that Mr. Clare's qualifications should be checked and if found satisfactory he was to be employed. Mr. Booth could not remember whether Mr. Pallett left then or not.

After Mr. Booth left the meeting in the Minister's office on September 19, 1957, he told Mr. A. Ledoux, the general manager of the Department's real estate branch, to check Mr. Clare's qualifications and report to him.

On October 1, 1957, the Minister wrote to Mr. Pallett. This letter was prepared for the Minister's signature by Mr. Booth. In it the Minister stated that his understanding of Mr. Pallett's proposal was that if new appraisals were made by a valuator acceptable to him the owners would agree to be bound by his valuation and he informed Mr.

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Pallett that the Department had arranged that Mr. Clare should undertake the work. The letter closed with the following paragraph:

I would appreciate receiving from you, as soon as conveniently possible, the written undertakings of the owners to be bound by Mr. Clare's valuations. When these valuations are received I will proceed along the lines indicated to you in our discussion.

The last sentence in this paragraph was the subject of sharply conflicting evidence. When Mr. Pallett was asked what lines had been indicated to him in the discussion his answer was "whatever valuations were made by the independent valuator would be accepted by the Department of Transport".

Mr. Booth was asked specifically whether the Minister had made such a statement and replied positively "the Minister did not say that". There was thus a sharp difference between Mr. Pallett and Mr. Booth. Mr. Pallett said that he had convinced the Minister and that he left the meeting with the understanding that the valuation to be made by Mr. Clare, if he was found to be qualified, would bind both the Department and the owners and that it was his responsibility to get the owner's signature on documents agreeing to his valuation. But Mr. Booth was clear that the Minister was most anxious to settle the matter and do everything possible short of binding the Crown in advance by the proposed valuation.

On October 3, 1957, Mr. Pallett wrote to the Minister acknowledging receipt of his letter of October 1, 1957, and informing him that the forms were being delivered that evening to the owners to obtain their signatures.

Mr. Pallett then secured the signatures of the owners to a document similar to that which was executed by the suppliant and her husband and filed as Exhibit 5. This purported to be an agreement between the suppliant and her husband as vendors and Her Majesty the Queen in the Right of Canada but it was signed only by the suppliant and her husband. There were several recitals—the last one reading as follows:

Whereas the Vendors to assist Her Majesty the Queen in the Right of Canada to settle their claims, the Vendors agree to accept and be bound by the valuation placed on the lands and appurtenances above described by one James Earl Scott Clare, of the Village of Port Credit, in the County of Peel, Real Estate Agent.

Then the operative part was as follows:

The Vendors agree to be bound by this Agreement of Settlement only if the amount as determined by James Earl Scott Clare having submitted his figures to the Minister of Transport, Ottawa, is paid within two months after the valuation is submitted.

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Three copies of this document were executed by the suppliant and her husband and similar documents were executed by the other owners.

The suppliant had no knowledge that Mr. Clare was to be the valuator prior to the execution of the document, Exhibit 5. And it should be noted that while the document purported to be an agreement between the Vendors and Her Majesty the Queen there was no provision for execution of it on behalf of Her Majesty.

On October 7, 1957, the Minister wrote to Mr. Pallett acknowledging receipt of his letter of October 3, 1957, and referring to Mr. Booth's telephone conversation with Mr. Pallett commenting on the shortness of the two months limit and concluding as follows:

I have been advised that barring unforeseen difficulties we shall be able to complete the formalities within this time limit, and under the circumstances I agree to proceeding in the manner you have arranged.

There was controversy over the meaning of the last portion of this letter: "I agree to proceeding in the manner you have arranged". It was Mr. Pallett's opinion that what was meant was that Mr. Clare would do the valuation and that it would be acceptable to both parties. But Mr. Booth, who had prepared the letter for the Minister's signature, said that the phrase "formalities" meant simply the formalities in the case of agreed settlements including submissions to the Treasury Board.

It is clear, of course, that Mr. Pallett knew the need for approval of the Treasury Board but he stated that the Minister said that he would take the responsibility.

There is no evidence of the date when Mr. Pallett sent the so-called agreements to Ottawa and he could not recall any acknowledgement of their receipt or any discussion with the Department relating to them.

After Mr. Clare received his appointment he made his appraisal of the suppliant's property. His report, which was filed as Exhibit 7, was dated December 6, 1957, and showed a valuation of \$17,330.50. When his reports were completed he showed them to the owners.

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On December 9, 1957, Mr. Pallett sent Mr. Clare's valuation reports to the Minister's executive assistant and they were then placed before the Minister.

The valuations were so out of line with other valuations that had been made and with settlements that had been made in about 180 cases in the Malton area that the Minister did not recommend them to the Treasury Board. After reporting to the Minister Mr. Booth, on the instructions of the Minister, discussed the valuations with Mr. MacNeill and one or two of his officials with a view to having them examined to consider whether there was any basis for approving settlement. They found the valuations unacceptable. On February 11, 1958, Mr. J. R. Baldwin, the Deputy Minister of Transport, wrote to the suppliant advising her to that effect and informing her that Mr. Clare's valuation could not be used as a basis for settlement of her claim. At the same time he told the suppliant that the Department's offer was increased to \$11,200 and that he was prepared to recommend this amount for approval by the Treasury Board. The suppliant declined this increased offer and on December 23, 1958, launched her petition of Right. At the trial Mr. Booth stated that this offer of \$11,200 was still open for acceptance.

On these facts counsel for the suppliant contended that there was an agreement between the suppliant and Her Majesty the Queen that the valuation made by Mr. Clare of the suppliant's former property should be binding on both parties. It was submitted that this agreement was spelled out in two ways: firstly, that there was an agreement by the Minister on behalf of Her Majesty with Mr. Pallett on behalf of the suppliant and the other owners, consisting of an offer by word of mouth made by the Minister to the suppliant and other owners through Mr. Pallett to be accepted in writing by them and an acceptance in writing by the suppliant and the other owners by their signatures of undertakings such as that executed by the suppliant and her husband and filed as Exhibit 5; secondly, that Mr. Pallett was authorized by the Minister to make an agreement with the suppliant and the other owners and clothed with ostensible authority to do so and that Mr. Pallett made such an agreement. Counsel referred to the evidence. There was, of course, the conflicting evidence of what took place in the Minister's office on September 19,

1957, Mr. Pallett asserting that the Minister had accepted his proposal that there should be a valuation by an appraiser approved by the Department and acceptable to the owners and that both the owners and the Minister acting for Her Majesty should be bound by such valuations and Mr. Booth stating that the Minister had not agreed to be bound in advance by such a valuation. Counsel for the suppliant contended strongly that the letters of October 1, 1957, and October 7, 1957, filed as Exhibits 22 and 24, and the conduct of the parties supported Mr. Pallett's statement, that the document filed as Exhibit 5 was an agreement of settlement contemplating a bilateral, and not a unilateral, obligation, and that the Department's concern over Mr. Clare indicated that it was to be bound by his valuation. And it was contended that the Minister had selected Mr. Pallett to make an agreement on his behalf with the owners and clothed him with authority to do so and that the arrangement set out in Exhibit 5 was such an agreement and had never been repudiated.

Counsel for the Crown contended equally strongly that the evidence as a whole was consistent with Mr. Booth's statement that the Minister did not say that the Department would accept whatever valuation the appraiser might make and inconsistent with Mr. Pallett's statement. It was significant that Exhibit 5, which Mr. Pallett prepared without submitting a draft of it to the Department, provided for only the signature of the owner. And the fact that the owners agreed to be bound only if the amount of Mr. Clare's valuation was paid within two months after the valuation was submitted is inconsistent with an agreement that the valuation should be binding on both parties. Counsel for the Crown also relied on the correspondence as inconsistent with the agreement asserted on behalf of the suppliant. For example, if there had been an agreement to accept the appraiser's valuations the words in Exhibit 22 "I will proceed along the lines indicated to you in our discussion" would be quite unnecessary. Moreover, the Minister's reference to Mr. Pallett's proposal would not have been made if there had been a concluded agreement.

It is clear that both Mr. Pallett and the Minister knew of the need for Treasury Board approval before the amounts of the valuations made by the appraiser could be paid. Under the circumstances, I am of the opinion that the

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Court should not conclude, in the absence of clear evidence, that the Minister, having been advised as he had been, agreed to be bound in advance by whatever valuations the appraiser might make.

Moreover, the agreement urged by counsel for the suppliant, being partly by word of mouth on the part of the Minister and partly in writing on the part of the suppliant, is of an unusual nature and not the kind of agreement that might ordinarily be expected in a case involving Her Majesty.

Finally, it must be kept in mind that the burden of proof of the alleged agreement lies on the suppliant. In my view of the evidence she has not discharged this burden and I so find.

And I am unable to find any support for the submission that the Minister clothed Mr. Pallett with authority to make an agreement that would be binding on both parties. He was never an agent of the Government and the Minister never held him out as such.

These findings are sufficient to dispose of the suppliant's petition of right, but even if it had been proved that the Minister had agreed to accept the appraiser's valuations as alleged this would not have entitled the suppliant to the relief sought by her.

It is an established rule that a contract which involves the provision of funds by Parliament requires, if it is to possess legal validity, that Parliament should have authorized it, either directly or under the provisions of a statute: *vide MacKay v. Attorney General for British Columbia*¹. And it is an elementary principle that a Minister cannot bind the Crown unless authorized by order in council or by statute: *vide The Quebec Skating Club v. The Queen*²; *The King v. McCarthy*³; and *The King v. Vancouver Lumber Co.*⁴

Counsel for the suppliant submitted that there was statutory authority for the Minister's action. He relied on sections 7 and 15 of the *Department of Transport Act*, R.S.C. 1952, Chapter 79, and several sections of the *Expropriation Act*, R.S.C. 1952, Chapter 106, including sections 3, 9, 16 and 23, and urged that the Act contemplated that the Minister could enter into agreements for the payment of compensation.

¹ [1922] 1 A.C. 457 at 461.

² (1893) 3 Ex. C.R. 387.

³ (1919) 18 Ex. C.R. 410 at 414.

⁴ (1920) 50 D.L.R. 6.

On the other hand, it was submitted on behalf of the Crown that the Minister could not validly bind the Crown as alleged. In support of this submission reliance was placed on sections 6 and 7(1) of the "Regulations Relative to the Acquisition of Land by Government Departments" made by Order in Council P.C. 4253, dated October 9, 1952. These sections read as follows:

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6. The Treasury Board may authorize the payment of compensation in respect of claims arising out of the expropriation of land and, except as provided herein, no compensation may be paid without the authority of the Treasury Board.

7. (1) The Minister may, without the authority of the Treasury Board, pay compensation in respect of all claims arising out of the expropriation of a parcel of land, where the amount of such compensation does not exceed \$15,000.

And it was submitted that since Mr. Clare's appraisal of \$17,330.50 exceeded \$15,000 the Minister had no power to pay that amount of compensation. I agree with this submission. The compensation money stands in the place and stead of the expropriated property and is indivisible.

Counsel for the suppliant contended that any limitation of the Minister's powers must be authorized by statute and that there was no statutory authority for the Regulations made by Order in Council P.C. 4253, dated October 1952.

I cannot accept this contention. Counsel on behalf of the Crown put forward two submissions in support of the validity of the Regulations. The first was that they were made under the authority of sections 39 and 5(1) of the *Financial Administration Act, Statutes of Canada, 1951* (Second Session), Chapter 12, now R.S.C. 1952, Chapter 116. Section 39(1) of this Act reads as follows:

39. The Governor in Council may make regulations with respect to the conditions under which contracts may be entered into and notwithstanding any other act,

(a) may direct that no contract by the terms of which payments are required in excess of such amount or amounts as the Governor in Council may prescribe shall be entered into or have any force or effect unless entry into the contract has been approved by the Governor in Council or The Treasury Board, . . .

And section 5(1) provides:

5. (1) The Treasury Board shall act as a committee of The Queen's Privy Council for Canada on all matters relating to finance, revenues, estimates, expenditures and financial commitments, the terms and conditions of employment of persons in the public service, and general administrative policy in the public service referred to the Board by the Governor

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in Council or on which the Board considers it desirable to report to the Governor in Council, or on which the Board considers it necessary to act under powers conferred by this or any other Act.

The second submission was that the Regulations constituted an executive direction of the Governor in Council designating the Treasury Board as the authority for the payment of compensation for expropriated land.

Prior to the Regulations every expropriation settlement and every purchase of land was authorized by an order in council. Under the Regulations the Governor in Council has designated the Treasury Board to act on his behalf in the payment of compensation for the expropriation of land and it now exercises the authority that was previously exercised by the Governor in Council.

In the absence of compelling argument to the contrary I am of the opinion that the Regulations are valid and that, consequently, the Minister had no power to enter into the alleged agreement.

It was submitted further on behalf of the Crown that the Minister was prevented from entering into a valid agreement of the kind alleged by reason of Section 30(1) of the *Financial Administration Act*, which provides:

30(1) No contract providing for the payment of any money by Her Majesty shall be entered into or have any force or effect unless the Comptroller certifies that there is a sufficient unencumbered balance available out of an appropriation or out of an item included in estimates before the House of Commons to discharge any commitments under such contract that would, under the provisions thereof, come in course of payment during the fiscal year in which the contract was entered into.

Since under the alleged agreement there was a commitment for payment within the fiscal year, a certificate from the Comptroller that there was a sufficient unencumbered balance available out of an appropriation to discharge it was necessary and the affidavits of Mr. D. M. Watters, the Secretary of the Treasury Board, and Mr. H. R. Balls, an officer of the Department of Finance and the Comptroller of the Treasury, indicated that, apart from documents authorizing certain advances to the suppliant, there was no document authorizing payment of the amount of Mr. Clare's valuation and that the necessary certificate had not been issued.

Consequently, I must find that there is no support for the suppliant's petition of right. There will, therefore, be judgment that she is not entitled to any of the relief sought

by her in the petition. And since I find that there was no support for the petition I see no reason why the respondent should be deprived of its costs. The respondent will, therefore, be entitled to costs of the petition to be taxed in the usual way.

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This leaves for consideration the information exhibited herein and the statement of defence to it.

The expropriated property is part of Lot 5 in Concession 7 in the Township of Toronto Gore and is on Line Six south of the Malton Airport. It has a frontage on Line Six of 124 feet running back 640 feet and back of that there is a width of 174 feet running back a further 643 feet. The area of the land is 4.36 acres. At the date of the expropriation there was a five-room bungalow, of frame construction, built by the defendant and her husband, the dwelling being described in detail in the various appraisal reports. In addition, there were various improvements on the property, also set out in the reports of the appraisers.

It was admitted that the best use that could have been made of the property was that to which it was actually being put.

The onus of proof of value of the property is on its former owner.

Evidence of value was given for the defendant by Mr. Clare and for the plaintiff by Mr. R. A. Davis, Mr. S. E. Janossy and Mr. W. L. Mason.

The total valuations made by the appraisers ranged from \$17,330.50 by Mr. Clare, \$9,080 by Mr. Davis to \$7,500 by Mr. Janossy.

There was less variation in the valuations of the dwelling and improvements than in the case of the land.

Mr. Clare put a valuation on the cottage of \$7 per square foot for 815 square feet, which should be 765 square feet, or \$5,705, and \$1,250 for the improvements, making a total of \$6,955. Mr. Davis valued the building at \$4,300 and the land improvements at \$680, or a total of \$4,980. And Mr. Janossy put the value of the house and improvements at \$4,435.

But in respect of the land value there was a sharp difference of opinion. Mr. Clare valued the frontage of 124 feet to a depth of 200 feet at \$25 per foot, or \$3,100, and put a valuation on the land at the rear at \$1,500 per acre for 3.8 acres, of \$5,700, making a land valuation of \$8,800,

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which worked out at over \$2,000 per acre. Mr. Davis valued the frontage at the rate of \$15.85 per foot for a depth of 400 feet and, subject to some adjustments, put the valuation of the front portion of the property, consisting of 1.13 acres, at \$2,150. In his opinion, the agricultural land at the rear had a value of \$600 per acre for 3.23 acres, or \$1,938, making a total land valuation of \$4,088, which worked out at about \$940 per acre. Mr. Janossy valued the acreage as a whole at \$750 per acre or total of \$3,225.

Mr. Mason was called for the purpose of proving the value of the frontage. Basing his opinion on sales of lots on the other side of the Sixth Line he estimated the value of the frontage of the suppliant's property at \$13 per foot for a depth of 200 feet, or \$1,612, and the balance of 3.79 acres at \$600 per acre, or \$2,300, making a land valuation of \$3,900.

Here I add the fact that the defendant bought the land in 1948 at \$350 per acre.

I have no hesitation in rejecting Mr. Clare's valuation. I do not believe that he was a free and independent appraiser. He admitted that Mr. Pallett, who had recommended his appointment, said that he wanted a good price and on his cross-examination, after long hesitation, he admitted that Mr. Pallett had instructed him to put as generous a valuation as possible on the properties and he told Mr. A. A. Speer, the Department of Transport's District Land Agent, that it was difficult for him to carry out his instructions.

But quite apart from these reasons his valuation is subject to serious objections. I am not concerned with his admitted error in the square footage of the house but his land valuations are quite erroneous. There was no justification for his valuation of the frontage at \$25 per foot for a depth of only 200 feet and there was no warrant for his valuation of the acreage at the rear at \$1,500 per acre. I have pointed out that his land valuation works out at over \$2,000 per acre. This was excessive and there is no wonder, in my opinion, that the Department of Transport found it out of line and informed the defendant that it could not be used as a basis for settlement of her claim.

I also reject Mr. Janossy's valuation as being very considerably too low.

This leaves the valuation made by Mr. Davis. His report demonstrates that his valuation was very carefully done.

He made a thorough study of the district, and of the relevant sales. As for the dwelling he took off the quantities of material and applied the current prices of material and labor. This is the best manner of appraising the value of a building, particularly when it is not of a standard type. I would, however, add to his valuation of the improvements. Counsel for the defendant found some fault with Mr. Davis' appraisal but such criticism as is valid would be amply met by raising his total valuation of \$9,080 to \$10,000 in round figures. That would result from an increase in valuation of the improvements and an increase in the valuation of the land.

But I am, in a sense, freed from difficulty in this case by reason of the offers that have been made. The evidence shows that on June 20, 1955, Mr. A. A. Speer offered the defendant \$9,825 and that this offer was increased on September 30, 1955, to \$10,350. The details of the breakdown of this amount appear in Exhibits 13 and 16 and it would appear that the amount offered in respect of the house and improvement seemed to the defendant to be fair. Her concern was with the valuation of the land. Subsequently, the Department's offer was, on February 11, 1958, increased to \$11,200 and this is still open. Under the circumstances, I have come to the conclusion that if I were to estimate the value of the expropriated property as at February 12, 1954, at this amount it would amply cover every factor of its value to the defendant that could reasonably be considered and I award this amount accordingly.

The defendant remained in possession of the property until December 1, 1958, without payment of rent. Consequently, in accordance with the well established rule in this Court she is not entitled to any interest up to that date. Since the defendant has received \$10,080 on account there still remains to be paid the sum of \$1,120 and the defendant is entitled to interest on this amount at 5 per cent per annum from December 1, 1958, to this date.

The defendant will also be entitled to her costs of the information action to be set off against the costs of the petition and if the costs on taxation show a balance against the defendant it will be deducted from the amount of the compensation money.

There will, therefore, be judgment in the information action declaring that the land described in paragraph 2

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thereof is vested in Her Majesty as at February 12, 1954; and that the amount of compensation to which the defendant is entitled, subject to the usual discharges and releases of all liens and claims is the sum of \$11,200, less \$10,080 paid on account, together with interest as stated and costs, subject to the costs of the plaintiff in the petition.

Judgment accordingly.

ADDITION

The day after I had delivered the above judgment counsel for the defendant in the information action requested by letter and in person that I increase the amount of my award by an additional allowance of 10 per cent for compulsory taking. Subsequently, he put forward a written submission in support of this request. I have also heard in writing from counsel for the plaintiff.

I have no hesitation in denying the request. I have dealt at length with the vexatious question of the additional allowance for compulsory taking in *The Queen v. Sisters of Charity*¹ and *The Queen v. Supertest Petroleum Corporation Limited*² and need not repeat what I said in my reasons for judgment in these cases. In my opinion, the amount of the award in the present case is so ample to cover every factor of the value of the expropriated property to its former owner that could reasonably be considered that any additional allowance for compulsory taking would be an unwarranted bonus.

Moreover, the case does not fall within the ambit of the rule for the granting of an additional allowance laid down by the unanimous judgment of the Supreme Court of Canada in *The King v. Lavoie*³. In that case Taschereau J., in delivering the judgment of the Court, in which Rinfret C.J. and Rand, Cartwright and Fauteux JJ. concurred, laid down the following rule:

Le contre-appellant soumet en second lieu, qu'il a droit à un montant supplémentaire de 10% de la compensation accordée, pour dépossession forcée. Ce montant additionnel de 10% n'est pas accordé dans tous les cas d'expropriation, et ce n'est que dans les causes où il est difficile par suite de certaines incertitudes dans l'appréciation du montant de la compensation qu'il y a lieu de l'ajouter à l'indemnité (*Irving Oil Co. v. The King* 1946, S.C.R. 551; *Diggon-Hibben Ltd. v. The King* 1949, S.C.R. 712). Ici, on ne rencontre pas les circonstances qui existaient dans les deux causes

¹ [1952] Ex. C.R. 113 at 131.

² [1954] Ex. C.R. 105 at 143.

³ (December 18, 1950 unreported).

que je viens de citer, et qui alors ont justifié l'application de la règle. Il n'a pas été démontré qu'il existait des éventualités inappréciables et incertaines, impossible à évaluer au moment du procès.

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While the meaning of the term "certaines incertitudes" is not clear, it is manifest, I think, that the Supreme Court of Canada, in the passage cited, decided that the additional allowance of ten per cent for compulsory taking is not allowed in all cases of compensation, and that it is *only* in cases of "certaines incertitudes" such as those that existed in *Irving Oil Co. v. The King* and *Diggon-Hibben Ltd. v. The King* that there is ground for adding it to the amount of the award. In my view, the *Lavoie* case is authority for saying that the additional allowance for compulsory taking should be granted *only* in cases of "incertitudes" such as those that existed in the cases cited by Taschereau J.

In my opinion, it is plain that the present case does not fall within the ambit of the rule laid down in the *Lavoie* case. Strictly speaking, I should, on the evidence before me, have limited my award to \$10,000, the amount to which I consider that Mr. Davis' valuation should be increased, but I was led to the award of \$11,200 by the fact that the offer of this amount was still open. To the extent of the difference my award was thus more than the amount warranted by the credible evidence before me.

There is a further reason for refusing counsel's request. It is clear from the valuations appearing on Exhibits 13 and 16, showing totals of \$10,268.40 and \$10,297.98, on which Mr. Speer's offer of \$10,350 on September 30, 1955, was made, that an allowance of 10 per cent was included in the amount offered. Consequently, I think it is reasonable to assume that the increased offer of \$11,200, referred to in Mr. Baldwin's letter of February 11, 1958, filed as Exhibit 8, also included such an additional allowance. That being so, it would be highly improper to add another additional allowance of 10 per cent to an amount that already includes it.

Consequently, even if I had jurisdiction to alter the amount of my judgment after its delivery by me, which question I need not here consider, I would not alter it.

The request of counsel for the defendant that I increase the amount of my award by an additional allowance of 10 per cent for compulsory taking is, therefore, refused.

Judgment accordingly.

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N.B.—The judgments herein were both affirmed by the Supreme Court of Canada [1961] S.C.R. 614. It was finally settled by the Supreme Court of Canada that in fixing the amount of an award of compensation for expropriated property there are factors other than the market value of the expropriated property which must be taken into account but which are not easily calculated, that in such cases the trial court may decide that compensation for such factors can best be appraised in the form of a percentage of the market value, but that when the value of the property has been assessed it represents full compensation and the former owner is not entitled to an additional amount for compulsory taking. The decision thus put an end, in cases under the Expropriation Act, to the "additional" allowance of 10 per cent for compulsory taking. There was no statutory basis for the allowance and no rule of law requiring it.

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BETWEEN:
WOODWARD'S PENSION SOCIETY APPELLANT;
AND
THE MINISTER OF NATIONAL }
REVENUE } RESPONDENT.

Revenue—Income tax—Income War Tax Act, R.S.C. 1927, c. 97, s. 5(1)(h)—Income Tax Act, R.S.C. 1952, c. 148, ss. 28(1), 62(1)(i)—Societies Act, R.S.B.C. 1948, c. 311—No claim for exemption unless requirements of exempting section complied with—Taxability of income not affected by purpose to which to be applied.

The appellant was incorporated in 1945 under the *Societies Act* of British Columbia. It was an affiliate of a group of Woodward companies that operated stores in various cities. It had been intended to set it up as a tax exempt society under section 5(1)(h) of the *Income War Tax Act* but the requirements for such a society could not be met. The appellant's object was to assist in providing funds for the payment of pensions to employees and ex-employees of the Woodward companies and it was required to pay its surplus funds from time to time to pension trustees for such employees and ex-employees. In order to be able to carry out its object it was to acquire shares in the Woodward companies and sell them. Immediately after its incorporation it took over the operation of a share sale scheme which had previously been carried on and continued it. Under this scheme it subscribed for large blocks of shares in the Woodward companies and sold them to employees of the companies. The shares were purchased at par with a small down payment and the balance payable in instalments with interest at the rate of 3 per cent per annum on the outstanding amounts. The appellant sold the shares to Woodward company employees at par with a small down payment and the balance payable in small weekly or monthly instalments with interest at the rate of 4 per cent per annum on the outstanding balance. It also took an option to repurchase the shares from the employee on his death or retirement. From time to time the appellant received dividends on shares it had on hand and it also realized capital gains due to Woodward company reorganizations.

By January 31, 1953, it had built up a surplus of \$754,019.02 made up partly of capital gains and the balance of accumulated annual operating profits consisting of dividends and the interest differential between the 3 per cent interest that it had paid and the 4 per cent interest that it had received from its employee purchasers.

Up to October, 1951, the Woodward companies, under the direction of pension trustees, had paid pensions to employees and ex-employees under the pension schemes that had been set up, but the appellant then took over the provision of funds for the payment of the pensions by the pension trustees and relieved the companies from this operating expense. In the year ending January 31, 1953, the appellant paid the pension trustees a total of \$42,273.23. The deduction of this amount was at first allowed but later disallowed, except for an amount, allowed under section 28(1) of the Act, equal to the amount of the dividends that the appellant had received. The Minister assessed the appellant only in respect of the net interest income received by it in the year, amounting to \$31,503.28. The appellant appealed against this assessment.

It was contended for the appellant that it was organized and operated exclusively for a purpose except profit and, therefore, exempt from income tax under section 62(1)(i) of the *Income Tax Act* or that, since it was required to pay its surplus funds to the pension trustees, it did not own the income it had received and was exempt from income tax in respect of it.

Held: That section 62(1)(i) of the *Income Tax Act* is an exempting provision and subject to the rule of construction that a taxpayer cannot succeed in claiming an exemption from income tax unless his claim comes clearly within the provisions of an exempting section of the Act and that every constituent element necessary to the exemption is present in his case and that every condition required by the exempting section has been complied with. *Lumbers v. Minister of National Revenue* [1943] Ex. C.R. 202 at 211 applied.

2. That the appellant was not organized and operated exclusively for a purpose "except profit" and was not qualified for exemption under section 62(1)(i) of the Act.
3. That the purpose of the appellant's organization was to raise money by acquiring and selling Woodward company shares so that it could provide funds for the payment of pensions to Woodward company employees and ex-employees and that it was operated for a profit purpose.
4. That the interest income of the appellant was earned by it as the result of its own operation in dealing with its own property and was owned by it. *Minister of National Revenue v. St. Catharines Flying Training School Limited* [1955] S.C.R. 738 distinguished.
5. That it is a basic principle of income tax law that the taxability of income cannot be affected by the purpose to which it is to be applied after it has been earned. *Mersey Docks v. Lucas* (1882-3) 8 A.C. 891.
6. That the appellant cannot by its own pre-determination of the purpose to which its profit is to be applied make its profit non-taxable.
7. That the fact the appellant was required to pay its surplus funds to the pension trustees cannot nullify the fact that when it acquired its interest income it was its own or save it from liability for income tax in respect of it.
8. That the appeal be dismissed.

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APPEAL against income tax assessment.

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The appeal was heard before the President of the Court at Victoria.

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P. N. Thorsteinsson for appellant.

F. J. Cross and *P. M. Troop* for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (September 17, 1959) delivered the following judgment:

This is an appeal against the appellant's income tax assessment for the taxation year ending January 31, 1953.

It is contended for the appellant that it is exempt from income tax for the said taxation year under section 62(1) of the *Income Tax Act*, R.S.C. 1952, Chapter 148, which reads as follows:

62. (1) No tax is payable under this Part upon the taxable income of a person for a period when that person was

- (i) a club, society or association organized and operated exclusively for social welfare, civic improvement, pleasure or recreation or for any other purpose except profit, no part of the income of which was payable to, or was otherwise available for the personal benefit of, any proprietor, member or shareholder thereof;

Counsel for the appellant submitted that it is entitled to the benefit of this section on the ground that for the period in question it was a society that was organized and operated exclusively for a purpose "except profit", within the meaning of the term "any other purpose except profit", and that no part of its income was payable to, or otherwise available for, the personal benefit of any proprietor, member or shareholder of it.

It is essential to a proper appreciation of the issue in the appeal, which is a narrow one, that the relevant facts be assessed correctly and this involves consideration of events prior to the organization of the appellant as well as those happening subsequently.

The appellant was incorporated on January 23, 1945, as a society under the *Societies Act* of British Columbia, now R. S. B. C. 1948, Chapter 311, with a declared object to which reference will be made later. In the taxation year in question it was one of a group of Woodward companies

operating stores in various cities, namely, Woodward Stores Limited, operating the Vancouver store, and Woodward Stores (Edmonton) Limited, Woodward Stores (Port Alberni) Limited, Woodward Stores (Capilano) Limited, Woodward Stores (Victoria) Limited and Woodward Stores (Westminster) Limited, operating stores in the indicated places, and a holding company Woodward Stores (1947) Limited, which held the shares in the operating companies. The last named company is a public one with its shares listed on the Vancouver and Toronto Stock Exchanges.

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To appreciate the appellant's place in this group of Woodward companies it is necessary to refer to the facts relating to two Woodward company activities, both of which were initiated prior to the incorporation of the appellant. One of these was the sale of Woodward company shares to Woodward company employees and the other the payment of pensions to Woodward company employees on their retirement from service.

I shall deal with the share sale activity first. This was initiated in 1931 by Charles Woodward, the founder and majority shareholder of the Woodward companies. He set aside two blocks of shares, of which he was himself the owner, totalling \$148,000 in par value, for sale to Woodward company employees and the other for the Edmonton company employees. Mr. W. Swannell, the former secretary of the Woodward companies, stated that Charles Woodward had thus established trusts in respect of the blocks of shares thus set aside and described the transaction as the Charles Woodward Trust, but it appears from his evidence on cross-examination that all that Charles Woodward did in 1931 was to insert a sheet of paper in the share register bearing the words "Charles Woodward in Trust \$148,000" or words to that effect. Mr. Swannell had never seen any trust agreement relating to the blocks of shares and there is no evidence of any declaration of trust having been made in respect of them. Nor could Mr. Swannell say whether the blocks of shares were identified. All that happened was a unilateral setting aside by Charles Woodward of \$148,000 worth of shares. I am unable to see how his act could be regarded as the establishment of a trust or trusts.

Immediately after thus setting aside the blocks of shares Charles Woodward commenced selling shares to Woodward

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company employees. The shares were sold under a share purchase agreement at their par value of \$5 per share. The agreement called for a small down payment and the balance in small weekly or monthly payments with interest on the outstanding balance at the rate of 4 per cent per annum. At the time of the agreement the employee gave Charles Woodward an option to repurchase the shares at their par value of \$5 each on the retirement of the employee or his severance from employment. On the completion of the agreement by the employee the shares covered by it were transferred to him. In the meantime he had the benefit of whatever dividends were paid. Charles Woodward carried on this share sale scheme until his death in 1937. The control of the Woodward companies then passed to his sons, W. C. Woodward and P. A. Woodward, and W. C. Woodward carried on the scheme in the same way as his father had done for a short period up to June, 1938, when it was taken over by Woodward Holdings Limited, a holding company that was the predecessor of Woodward Stores (1947) Limited. This company carried on the scheme in the same way as Charles Woodward and W. C. Woodward had done until October 10, 1946, when the appellant took it over and enlarged it as will be seen later. The conduct of the scheme by Woodward Holdings Limited did not involve any element of trust.

The payment of pensions to Woodward company former employees started at a later date than that of the share sale scheme. The first payments were made in 1942. They were made by the operating companies themselves, the amounts paid were dealt with as operating expenses and their deduction from what would otherwise have been taxable income was allowed by the Department. The payments were made under the direction of a committee consisting of W. Mann, J. W. Butterfield and A. J. Rowse, all Woodward company executives and they continued to direct the payment of pensions until October, 1951, when the money required for their payment was provided by the appellant as will appear later.

I have already referred to the fact that the appellant was incorporated on January 23, 1945. The object for which it was incorporated was set out in a declaration, dated January 19, 1945, but this was enlarged, pursuant to the *Societies Act*, on September 15, 1947, and again on

February 2, 1949, and altered, pursuant to the *Societies Act*, on March 8, 1952. Since this enlarged and altered object was the appellant's object in the taxation year in question and since the purpose of its organization and operation in that year is in dispute it is desirable to set it out in full. It was as follows:

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The object of the society is to assist in providing funds for the payment of pensions to employees and ex-employees of Woodward Stores Limited in accordance with the pension plan of Woodward Stores Limited as such plan exists at the date hereof or as it may be hereafter constituted and to assist in providing funds for the payment of pensions to the employees and ex-employees of Woodward Stores (Edmonton) Limited, Woodward Stores (Port Alberni) Limited, Woodward Stores (Westminster) Limited, Woodward Stores (Capilano) Limited and Woodward Stores (Victoria) Limited and each of them and of the respective successors of said six companies and each of them in accordance with their respective pension plans as they now are or hereafter may be constituted from time to time and to pay over its surplus funds from time to time to the trustee or trustees for the time being of the trust established in respect of pensions by Woodward Stores Limited by Indenture dated the 19th day of January 1945 made between Woodward Stores Limited as the company and William Mann, John William Butterfield and Arthur John Rowse as trustees and also to pay over such portions of its surplus funds as the directors may from time to time decide to the trustee or trustees for the time being of all or any of the respective trusts as they now are or hereafter may be constituted from time to time in respect of pensions by all or any of such companies and all or any of their respective successors in the absolute discretion of said directors and for the purpose aforesaid to acquire by purchase, gift or otherwise shares in the share capital of Woodward Stores Limited, Woodward Stores (1947) Limited, Woodward Stores (Alberta) Limited, Woodward Stores (Port Alberni) Limited, Woodward Stores (Westminster) Limited, and Woodward Holdings Limited, or any of them, to sell all or any of the shares so acquired and to take options on the re-purchase thereof, and to do all such other things as may be necessary for or conducive to the attainment of the said object.

In the original object, as declared on January 19, 1945, the appellant was concerned only with the payment of pensions to employees and ex-employees of Woodward Stores Limited and paying over its surplus funds to the pension trustees mentioned in the trust deed of January 19, 1945, and it was confined in its dealings with Woodward company shares to the shares of Woodward Stores Limited. And there was no reference in the original object to any exercise of discretion by the directors of the appellant.

On the same date as that of the declaration of the appellant's original object, namely, on January 19, 1945, a trust deed was entered into between Woodward Stores Limited as the Company and William Mann, John William Butterfield and Arthur John Rowse as Trustees whereby

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they were constituted pension trustees for such employees and ex-employees of the Company as might be eligible to receive pensions. The said trustees, later referred to as the pension trustees, were the same persons as the members of the pension committee mentioned previously. They were also all members of the appellant, William Mann being its president and Arthur James Rowse its secretary.

Immediately after its incorporation the appellant took over the operation of the share sale scheme which Woodward Holdings Limited had taken over from W. C. Woodward.

But before I deal with this activity I should refer to another matter in order to clear it out of the way.

Mr. Swannell stated that W. C. Woodward had had the idea of setting up a tax exempt pensions society under section 5(1)(h) of the *Income War Tax Act*, R.S.C. 1927, Chapter 97, which read, in part, as follows:

5. (1)(h) In case of a trust established in connection with, or a corporation incorporated for the administration of an employees' superannuation or pension fund or plan, the income from the investment of the superannuation or pension funds shall be exempt if the trustee or corporation so elects.

and that before the appellant was incorporated discussions were held with the Department at Ottawa with a view to ascertaining the requirements of such a society. Mr. W. O. Skinner, the vice-president, comptroller and secretary of all Woodward companies, including the appellant, since June, 1959, and the Woodward companies' executive in charge of the appellant's affairs, stated that it had never obtained the Department's approval under the section referred to. There were two reasons that prevented it from becoming a tax exempt pension society under the section as W. C. Woodward had intended. The first was that it handled the share sale scheme and the second that it lacked the necessary funds to meet the past service liabilities to the employees that an actuarially sound pension fund should have. The matter has been discussed with the Department on a number of occasions but it is still in the air. Consequently, the appellant cannot be considered as having been organized as a tax exempt pension society. It has nothing to do with the administration of a superannuation or pension fund or plan or the administration of a pension scheme. It does not pay any pensions.

All that it does is to assist in providing funds for the payment of pensions and it obtains the desired funds by operating the share sale scheme. Mr. Skinner conceded that the appellant's operations consisted solely in dealing in Woodward company shares with Woodward company employees and nothing else and that it never engaged in any other operation. Consequently, it cannot be considered as a pension society in the ordinary sense of the term and, to that extent, its name is a misnomer.

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Immediately after the appellant had purchased its first block of shares on January 26, 1945, it began to sell them to Woodward company employees under agreements similar in terms to those of the share purchase agreement already mentioned, namely, at their par value of \$5 per share, with a small down payment and the balance in small weekly or monthly payments together with interest on the outstanding balance at the rate of 4 per cent per annum. At the same time the appellant took an option from the employee purchaser to repurchase the shares at the par value of \$5 per share on the death or retirement of the employee. It is interesting to note that when the appellant purchased its first shares it had no money and had to rely on the sale of shares to employees to get the monies necessary to meet its payments as they became due.

I now come to the facts of the appellant's operation of the share sale scheme. On January 26, 1945, it entered into one agreement with Woodward Holdings Limited for the purchase of shares of Woodward Stores Limited having an aggregate par value of \$710,050, at \$5 per share, and agreed to pay this amount with a down payment of \$1, a payment of \$50,000 on April 15, 1945, and the balance at the rate of \$50,000 on April 15, annually thereafter together with interest on the outstanding balance at the rate of 3 per cent per annum.

On October 10, 1946, the appellant entered into another agreement with Woodward Holdings Limited whereby it purchased shares of Woodward Stores Limited in the aggregate par value of \$70,900, at \$5 per share, for which it agreed to pay \$73,026, the difference being due to an accrual of dividends, with a down payment of \$1, a payment of \$7,300 on April 15, 1947, and the balance at the rate of \$7,300 on April 15, annually thereafter together

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with interest on the outstanding balance at the rate of 3 per cent per annum. This purchase took the residue of the shares which W. C. Woodward had turned over to Woodward Holdings Limited for sale by it.

On the same date, namely, October 10, 1946, the appellant entered into still another agreement with Woodward Holdings Limited whereby it took over its rights in agreements which it had made for the sale of shares to employees, the amount remaining unpaid on the said shares as at July 31, 1946, being \$165,140.78, which amount the appellant agreed to pay at \$17,700 on April 15, 1947, and the balance at the rate of \$17,700 on April 15, annually thereafter together with interest on the outstanding balance at the rate of 3 per cent per annum.

Thus far the appellant dealt only in shares of Woodward Stores Limited but, subsequently, under the enlargements of its object on September 15, 1947, and February 21, 1949, it was enabled to deal in the shares of other Woodward companies, including Woodward Stores (Alberta) Limited, Woodward Stores (Port Alberni) Limited, Woodward Stores (Westminster) Limited, Woodward Holdings Limited and Woodward Stores (1947) Limited. Under its enlarged power it acquired large blocks of shares in various Woodward companies in addition to those already referred to. Thus in September, 1947, it acquired 180,058 shares of the aggregate par value of \$900,290 of Woodward Stores (1947) Limited, which had been established on the reorganization of the Woodward companies in 1947 to hold all the shares in all the Woodward operating companies. It borrowed the amount necessary to pay for these shares from W. C. Woodward and P. A. Woodward on a demand note carrying interest at the rate of 3 per cent per annum but the interest was later waived and was never paid.

And in November, 1947, the appellant acquired from Woodward Holdings Limited its rights in agreements which it had made for the sale of shares in C. Woodward Limited, the original Woodward company in Edmonton, the predecessor of Woodward Stores (Edmonton) Limited, to its Edmonton employees for \$48,964.16, being the amount remaining unpaid on the said agreements. These shares were at the par value of \$1 per share but were later exchanged for \$5 par value shares of Woodward Stores (Alberta) Limited.

The appellant made two other substantial purchases of shares. In May, 1948, it purchased 80,000 shares of the aggregate par value of \$400,000 of Woodward Stores (Alberta) Limited, which then held all the shares of Woodward Stores (Edmonton) Limited, and paid for them with money borrowed from Woodward Stores (Edmonton) Limited. No interest was ever paid on the amount thus borrowed.

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And in December, 1948, the appellant purchased 20,000 shares of the aggregate par value of \$100,000 from Woodward Stores (Port Alberni) Limited and paid for them with money borrowed from the Vancouver company, Woodward Stores Limited. This amount was covered by a demand note carrying interest at the rate of 3 per cent per annum but no interest was ever paid.

Prior to Woodward Stores (1947) Limited taking over all the shares of the Woodward operating companies the appellant sold shares of Woodward Stores Limited, Woodward Stores (Alberta) Limited and Woodward Stores (Port Alberni) Limited to the Vancouver, Edmonton and Port Alberni employees respectively but after the re-organization the only shares that were sold to employees regardless of where they were were those of Woodward Stores (1947) Limited. Previously the rates of dividend varied but after the 1947 re-organization they remained constant.

Whenever the appellant sold shares to a Woodward company employee it was always on terms similar to those already described and it always took from the employee purchaser an option to repurchase the shares on his death or retirement. The option was always taken up when the right to exercise it arose. The sale and the repurchase were always at the par value of \$5 per share.

When the employee completed his agreement he received the share certificate for the shares purchased by him but until then the shares continued to be registered in the appellant's name. It did, however, turn the dividends on the shares over to the purchaser employee, subject to a provision in the share purchase agreement that dividends to be declared on the shares for the current year should be proportionately adjusted between the appellant and the employee as of the date of the agreement. There was a similar apportionment when shares were repurchased from employees.

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The extent of the appellant's dealing in Woodward company shares is shown by the fact that in the eight years ending January 31, 1953, it had purchased from the various Woodward companies a total of 436,248 shares, in addition to 132,660 shares in respect of which it had taken over the equities of previous vendors, that it had sold 599,272 shares to employees and repurchased 263,593 shares from them, the first figure, no doubt, including shares which it had repurchased and then resold.

Moreover, it is beyond dispute that the appellant's operation of the share sale scheme was very profitable. During the eight year period since its incorporation ending January 31, 1953, it had incurred total obligations of \$2,395,345.94 for the purchase of shares and equities in sale purchase agreement but by January 31, 1953, it had paid off all its obligations except \$200,000 still owing to P. A. Woodward and had built up a surplus of \$754,019.02 even after it had paid \$13,089.30 to the pension trustees in October, 1951 and a further sum of \$42,273.23 during the year ending January 31, 1953. And it is remarkable that it started with no assets at all.

It is true that this surplus included some capital gains. These came about as the result of Woodward company reorganizations. In August, 1947, Woodward Stores (1947) Limited exchanged all the appellant's shares of Woodward Stores Limited for shares of Woodward Stores (1947) Limited at the rate of 1½ for 1 with the result that it made a capital gain of \$154,950 from this source. And in 1947 all the appellant's shares in C. Woodward Limited were exchanged for shares in Woodward Stores (Alberta) Limited, a subsidiary holding company of the shares of Woodward Stores (Edmonton) Limited, at the rate of 2 for 1 with the result that the appellant made a capital gain of \$5,000 from this source. The total of the capital gains thus made in the year ending January 31, 1948, came to \$160,050. And in the year ending January 31, 1953, all the appellant's shares of Woodward Stores (Alberta) Limited were exchanged for shares in Woodward Stores (1947) Limited at the rate of 3 for 2 with the result that in that year it made a capital gain of \$25,975, from that source.

Apart from these capital gains the rest of the appellants' surplus was an accumulation of annual operating profits.

These are set out in the appellant's annual financial statements, filed as Exhibits E1 to E8, which show how the surplus was built up year by year.

The items of revenue consist of interest and dividends received by the appellant and those of expenditure consist of interest paid by it on amounts owing by it or on deposits made by employees or in lieu of dividends and other items such as incorporation and legal expenses and small sundry expenses. The largest item of revenue, amounting to \$559,843.18, as shown by Exhibit 6, consisted of dividends received by the appellant either in respect of the unsold shares held by it or as its share of the dividends on shares purchased by employees pursuant to the apportionment provision in the share purchase agreement. The total amount of interest received by the appellant from employees on their unpaid balances came to \$254,280.91, as shown by the financial statements, which amount was reduced to a net \$141,298.48, as shown by Exhibit 6, after the payment of interest by the appellant. There was thus a net interest profit of this amount gained during the eight periods from the employees to whom shares had been sold.

The appellant did not pay any moneys out of its surplus to the pension trustees until October, 1951. The reason for the delay, as given by Mr. Skinner, was that up to 1949 the appellant's cash position was low and it was not until 1951 that it was felt that it was in a position to supply the necessary funds. Up to that time the operating companies under the direction of the pension committee referred to paid the pensions themselves. The amounts so paid were charged as operating expenses and their deduction was allowed by the Department. But in October, 1951, the appellant took over the provision of funds for the payment of pensions by the pension trustees and thereafter the operating companies were relieved of this expense. Since then the operating companies have not paid any pensions. In October, 1951, the appellant paid the pension trustees the sum of \$13,089.30, which was enough to meet the pension requirements for the balance of the year ending January 31, 1952. In the statement of revenue and expenditure for that year the amount thus paid is described as "pensions paid", but this is not correct. The appellant never paid any pensions. In the following year the appellant

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paid the pension trustees the sum of \$42,273.23, which was all that was required for pension purposes in that year. The pension trustees advised the appellant each month of the amount required for the payment of pensions and the appellant paid them the necessary amounts. The sum of \$42,273.23 was also erroneously described in the statement of revenue and expenditure as "pensions paid".

I should also refer to other facts on which counsel for the appellant relied as proof that it is not a commercial company in the ordinary sense. It has no paid officers or employees. It does not maintain an office. Its books are kept in the general office of the Woodward Vancouver store. It does not pay rent or bear any share of the overhead expense of the Vancouver store. All its work is carried on by the secretary and his staff which is the staff of the Vancouver store but it does not make any contribution to the expense of this staff.

There is also the fact that paragraph 4 of the appellant's by-laws requires it to carry out the objects set forth in the declaration filed with the Registrar of Companies on the incorporation of the society. This paragraph must, of course, be read subject to the enlargements and alteration of the appellant's object to which I have referred. And paragraph 54 of the by-laws provides that upon the dissolution of the society all its assets shall be conveyed, assigned, transferred and delivered to the pension trustees appointed on January 19, 1945, or their successors to be held by them or their successors upon the trusts declared in the indenture of that date.

The circumstances which led to the present appeal may be stated briefly. In its income tax return for the year ending January 31, 1952, the appellant claimed a deduction of the amount of \$13,089.30 which it had paid to the pension trustees and this deduction was allowed by the Department. Similarly, its claim of a deduction of the amount of \$42,273.23, which it made in its income tax return for the following year ending January 31, 1953, was also allowed. In the next year the amount paid by the appellant to the pension trustees exceeded its income for that year and it then filed an amended income tax return for the year ending January 31, 1953, and sought to carry back its 1954 loss as a deduction for that year. Subsequently, on July 25, 1957, the Minister re-assessed the

appellant for the taxation year ending January 31, 1953. On the reassessment the deduction of \$42,273.23 claimed by it was disallowed, but it was allowed, under section 28(1) of the Act, to deduct an amount equal to that of the dividends which it had received from corporations and it was assessed only in respect of the net interest income received by it in the year, amounting to \$31,525.58, less an expense item of \$22.30, as shown on the appellant's statement of revenue and expenditure for the year, leaving a taxable income of \$31,503.28. The appellant objected to the assessment mainly on the ground that it was exempt from tax under section 62(1)(i) of the Act. The Minister confirmed the assessment particularly on the ground that "the taxpayer does not qualify for exemption under subsection (1) of section 62 of the Act." Thereupon the appellant appealed to this Court.

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Counsel for the appellant does not now claim a deduction of the amount paid to the pension trustees and does not dispute the amount of the assessment if the appellant is found liable to tax.

Thus the narrow issue in the appeal is that the appellant contends that in the taxation year in question it was exempt from tax under section 62(1)(i) of the Act whereas it is contended for the Minister that it is subject to tax on the net interest income of \$31,503.28 received by it during the year.

I am unable to accept the contention of counsel for the appellant that it was exempt from tax for the taxation year in question under section 62 (1)(i) of the Act. This is an exempting provision and, therefore, subject to the rule of construction laid down in *Lumbers v. Minister of National Revenue*,¹ which was stated as follows:

a taxpayer cannot succeed in claiming an exemption from income tax unless his claim comes clearly within the provisions of some exempting section of the Income War Tax Act: he must show that every constituent element necessary to the exemption is present in his case and that every condition required by the exempting section has been complied with.

This rule has been applied in numerous cases.

In my opinion, the appellant does not meet the requirements of the section and the Minister was right in finding that it did not qualify for exemption under it.

¹ [1943] Ex. C.R. 202 at 211.

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The section presupposes that if a club, society or association is to be exempt from tax under it it should be organized and operated exclusively for a purpose "except profit", that is to say, for a purpose other than a profit one. That necessary condition does not exist in the present case.

While it may have been the purpose in W. C. Woodward's mind, when the organization of the appellant was being considered, to establish a tax exempt pension society that would enjoy the benefits of section 5(1)(h) of the *Income War Tax Act* that purpose was never accomplished. Mr. Skinner's evidence to that effect is conclusive. Consequently, any suggestion that the purpose of the organization of the appellant was to make it an element in the administration of a pension scheme for Woodward company employees and ex-employees is unfounded. The purpose of its actual organization was a much more limited one, namely, to assist in providing funds for the payment of pensions by the pension trustees or, in other words, to raise money. The raising of money was its basic purpose and for that purpose, namely, the raising of money, it was directed to deal in shares of the various Woodward companies by acquiring and selling them and it was intended that its dealings should result in the raising of money so that it could provide the necessary monetary assistance to the pension trustees. Thus the purpose of the appellant's actual organization was a profit one. It was certainly not organized for a purpose "except profit" within the meaning of the term "any other purpose except profit."

And I have no hesitation in finding that the appellant was operated for a profit purpose. Its only operations consisted in dealing in Woodward company shares. It made a profit from such dealing—indeed, a very substantial one—and it was intended that it should do so. In the taxation year in dispute it earned a net income interest of \$31,503.28 from Woodward company employees to whom it had sold shares, which was almost enough to pay all the pensions for that year. In this connection I am unable to accept the submission of counsel for the appellant that its purpose in operating the share sale scheme was to provide shares to Woodward company employees at cost and that the making of a profit out of the operation was merely incidental. That submission runs counter to the

plain intendment of the appellant's object. It was to deal in the shares for the purpose of assisting in providing funds for the payment of pensions, which plainly meant that it was to make a profit out of such dealing so that it could assist in providing the desired funds. If it was intended that the operation should be solely for the purpose of getting shares into the hands of employees why did the appellant exact greater interest from the employees on their outstanding balances than it had to pay on its own outstanding balances and why did it keep for itself a portion of the current year's dividends on shares which employees had purchased? Moreover, even if the purpose of dealing in the shares was partly to put them into the hands of employees and partly to make a profit therefrom, the purpose of the operation was not exclusively for a purpose "except profit".

Since I have found that in the taxation year in question the appellant was organized and operated for a profit purpose it follows, of course, that it was not entitled to any exemption under section 62(1)(i) of the Act.

While, in effect, this finding disposes of the appellant's contention I should deal with two specific submissions made by counsel for the appellant in support of his contention that it was exempt from tax under section 62(1)(i). One was that the profit purpose envisaged by the section was a purpose of earning a commercial profit and that this element was missing in the appellant's case. I do not agree. It seems manifest to me that there was what might well be considered a commercial purpose behind the appellant's organization, namely, that it should so operate the share sale scheme as to raise money by it and pay it over to the pension trustees and thereby relieve the operating company from a considerable operating expense. This was certainly a commercial purpose and it was accomplished in such a substantial manner that most of the money required to pay pensions in the taxation year in question came from interest income received from employees who had purchased shares and still owed balances of purchase price.

The other specific submission was that the appellant was entitled to exemption under the section by reason of the fact that it was impossible for it to keep or distribute its profit but must pay it to the pension trustees and that, consequently, the appellant did not own it. In support of this

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contention counsel relied strongly on the decision of the Supreme Court of Canada in *Minister of National Revenue v. St. Catharines Flying Training School Limited*.¹ There it was held by Locke J., who delivered the judgment of the Court, that the respondent in that case had no income liable to taxation since the surplus held by it was, in effect, held in trust for the Crown. In my opinion, that finding has no application to the facts in the present case and is certainly not an authority for the submission that the appellant was exempt from tax under section 62(1)(i). It would be unrealistic and fanciful to hold that the appellant had no income in the year ending January 31, 1953. Its own statement of revenue and expenditure for the year, Exhibit E8, shows its income. The fact that it was required to pay over its surplus funds to the pension trustees cannot possibly nullify the fact that the appellant had an income. The income was earned by it as the result of its own operation in dealing with its own property. How can it then be said that it did not own its income? The fact that a person must devote his property to a particular purpose cannot alter the fact that when he acquired the property it was his.

Now that it has been determined that the appellant has not qualified for exemption under section 62(1)(i) of the Act the only remaining question is whether it was subject to tax in respect of its income for the taxation year in dispute and we are here concerned only with the interest portion of it.

There can, I think, be no doubt about it. The interest was earned, as already stated, by the appellant on the result of its own operation of its own property so that it does not matter whether the profit gained by it was a profit from a business or a profit from property. And it is a basic principle of income tax law that the taxability of income cannot be affected by the purpose to which it is applied after it has been earned. This was established beyond dispute by the House of Lords in *Mersey Docks v. Lucas*². There, a corporation was constituted for the management of the Mersey Dock Estate by an Act which provided that the moneys to be received by them from their dock dues and other sources of revenue should be applied in payment of expenses, interest upon debts, construction of works and

¹ [1955] S.C.R. 738.

² (1882-3) 8 A.C. 891.

management of the estate; and that the surplus should be applied to a sinking fund for the extinguishment of the principal of the debts; and that after such extinguishment the rates should be reduced; and that except as aforesaid the moneys should not be applied for any other purpose whatsoever; and that nothing should affect their liability to parochial or local rates. It was held unanimously by the House of Lords that under the Income Tax Acts the corporation was liable to income tax in respect of the surplus although applicable to the said purposes only. The decision in *Mersey Docks v. Lucas (supra)* was later regarded as binding authority and applied by the House of Lords in *Forth Conservancy Board v. Inland Revenue Commissioners*¹.

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In my opinion, the principle thus established is as applicable in Canada as in the United Kingdom.

If a statutory requirement that an item of profit must be applied to a particular purpose cannot affect its taxability it follows as a matter of course that the appellant cannot by its own pre-determination of the purpose to which its profit is to be applied make its profit non-taxable. A taxpayer cannot make his profit non-taxable by determining in advance of his making it what is to be done with it. The purpose to which he applies his profit cannot affect his liability to tax in respect of it.

Consequently, the fact that the appellant was required to pay its surplus to the pension trustees does not save it from liability for income tax on the amount in question. The Minister was, therefore, right in assessing the appellant as he did—and its appeal must be dismissed with costs.

Judgment accordingly.

N.B. The judgment herein was affirmed by the Supreme Court of Canada [1962] S.C.R. 224.

¹[1931] A.C. 540.

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BETWEEN:
ARTHUR STEKL APPELLANT;

AND

THE MINISTER OF NATIONAL }
REVENUE } RESPONDENT.

Revenue—Income tax—Income Tax Act, R.S.C. 1952, c. 148, ss. 3, 4, 67(1), 67(3), 68(1), 68(1)(c), 139(1)(e)—Companies Act of British Columbia, R.S.B.C. 1936, c. 42—Taxability of profit on sale of timber license dependent on true nature of transaction—Character of income not affected by subsequent use of it—Holding of property for re-sale at a profit not per se proof of profit from adventure in nature of trade—Meaning of adventure or concern in nature of trade—Dealing with subject matter of transaction as trader would do evidence of adventure in nature of trade.

The appellant with his wife and their two children came to Canada in 1940 from what had been Austro-Hungary where he had been in the lumber business for 33 years. After his arrival he engaged in various activities, including a lumber business, in the course of which he caused a company to be incorporated for the purpose of taking over certain assets, including a saw mill and some timber, which he had purchased in the name of the company. In 1945 the mill and the timber were disposed of and the appellant retired from active business but continued to be the manager of the company which lay dormant until 1952. In 1949 the appellant, who was interested in buying a timber license, was offered a timber license covering land on Gambier Island and bought it in 1950 for \$5,500. It was the last asset in the estate of a company that was in voluntary liquidation. The purchase price came out of funds held by a Trust Company for the appellant's children and the title to the license was taken in the name of the Trust Company which held it in trust for the children. In 1952 the appellant decided to revive the company, his reason for doing so being that he bought a large apartment block in its name, the money for its purchase coming partly from funds held by the Trust Company for the children and partly from himself. He then reorganized the company in such a way that while the beneficial interest in it was entirely in the children he had complete control of it. In 1953 all the assets of the children, including the timber license, were brought into the company, the price at which it was taken being stated to be its fair market value of \$15,000. The timber license was not actually transferred into the name of the company but, pursuant to a direction from the children, the Trust Company held it in trust for the company.

There was never any operation of business under the timber license and it remained the property of the company until it was sold in 1955. In that year, after the appellant had listed it for sale he sold it for \$50,000 and the company invested the net proceeds of the sale in common stocks.

In its financial statement for 1955 the company showed the profit on the sale of the timber license as a capital profit of \$32,236.68.

The company was a personal corporation within the meaning of section 68(1) of the *Income Tax Act*. In 1957 the Minister added the profit of \$32,236.68 made on the sale of the timber license to the profit reported

by the company. Pursuant to section 67(3) of the Act this total was deemed to have been distributed to the shareholders of the company and the Minister assessed the appellant, his wife and the two children accordingly.

The appellant appealed against his assessment to the Income Tax Appeal Board which dismissed his appeal and he then appealed to this Court.

The appellant contended that he had purchased the timber license for an investment only but that when he received the offer of \$50,000 for the license he saw the possibilities of buying other pieces of property with the money and decided to sell.

The appellant also contended that since the company's memorandum of association provided that it was incorporated for investment purposes only it did not have the right to engage in business and that if it did so its act was *ultra vires*. And he also contended that if the company engaged in business resulting in a taxable profit it could not be a personal corporation and that it, rather than he and the members of his family, should have been assessed for the profit.

Held: That in order to determine whether the profit on the sale of the timber license was the realization of an investment or a profit from a business, including therein an adventure or concern in the nature of trade, it is necessary to determine the true nature of the transaction relating to the timber license, including its purchase, the manner in which it was dealt with and its sale.

2. That the character of income cannot be affected by the use that is subsequently made of it, so that if the profit from the sale of the timber license was taxable as being a profit from an adventure in the nature of trade it cannot cease to be such by reason of the fact that the amount of the sale price was used to purchase common shares as investments. *Mersey Docks v. Lucas* (1882-3) 8 A.C. 891 applied.
3. That the appellant purchased the timber license in the name of the Trust Company, that when he sold it he acted for the company of which he had complete control and that his conduct must be considered as that of the persons for whom he acted from time to time.
4. That the appellant purchased and held the timber license with the intent, in the interests of the children, of selling it at a profit when what he considered was a good price could be obtained for it.
5. That while the fact that the appellant held the timber license for resale at a profit does not *per se* establish that the profit from its resale was a profit from an adventure in the nature of trade, the fact that the timber license was not the kind of property that is normally used for investment and an annual return from it could be produced only by an operation of business under it and that it was held for resale at a profit without any expectation of a return from it is some evidence that the profit was a profit from an adventure in the nature of trade. *Commissioners of Inland Revenue v. Reinhold* (1953) 34 T.C. 389 distinguished.
6. That the timber license was an asset such as a person engaged in the lumber business would be likely to have, that it would be more fairly regarded as a business or trade asset than as part of a business portfolio and that the actions of the appellant, throughout the whole of the timber license transaction, were like those that might be expected from a trader.
7. That the timber license transaction was an adventure in the nature of trade.

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8. That the taxability of the company's profit was not affected by the fact that it was incorporated for investment purposes only. The taxability of the profit depends on the true nature of the transaction and on what the company did, not on what it was empowered or not empowered to do.
9. That the fact that the company's timber license transaction was an adventure in the nature of trade did not put it into the category of having carried on an "active" business in 1955 in such a way as to deprive it of its character as a personal corporation.
10. That the appeal must be dismissed.

APPEAL from decision of the Income Tax Appeal Board.

The appeal was heard before the President of the Court at Victoria.

Max Grossman, Q.C., and *D. R. Sheppard* for appellant.

T. E. Jackson and *P. M. Troop* for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (October 15, 1959) delivered the following judgment:

This is an appeal from the decision of the Income Tax Appeal Board, *sub nomine No. 556 v. M. N. R.*,¹ dated August 6, 1958, dismissing the appellant's appeal against his income tax assessment for 1955.

The issue in the appeal is whether the profit made by Somerset Limited, hereinafter called the Company, in 1955 on the sale of a timber license, described as Timber License No. 10598-P on Gambier Island in British Columbia, hereinafter called the timber licence, was the realization of an investment or a profit from a business within the meaning of sections 3 and 4 of the *Income Tax Act*, R. S. C. 1952, Chapter 148, and the definition of "business" in section 139(1)(e) with the inclusion therein of "an adventure or concern in the nature of trade."

Section 3 of the Act provides:

3. The income of a taxpayer for a taxation year for the purposes of this Part is his income for the year from all sources inside or outside Canada and, without restricting the generality of the foregoing, includes income for the year from all

- (a) businesses,
- (b) property, and
- (c) offices and employments.

¹ (1958) 20 Tax A.B.C. 77.

And section 4 enacts:

4. Subject to the other provisions of this Part, income for a taxation year from a business or property is the profit therefrom for the year.

and section 139(1)(e) defines "business" as follows:

139. (1) In this Act,

(e) "business" includes a profession, calling, trade, manufacture or undertaking of any kind whatsoever and includes an adventure or concern in the nature of trade but does not include an office or employment;

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At the time of the sale the title to the timber license stood in the name of The Toronto General Trusts Corporation, hereinafter called the Trust Company, which held it in trust for the Company under circumstances to be set out later. At all material times the Company was a personal corporation, within the meaning of section 68(1) of the Act, formerly section 61 of *The Income Tax Act*, Statutes of Canada, 1948, chapter 52, consisting of the appellant and the members of his family, namely, his wife Magdalena, his son George and his daughter Eva (now Mrs. Cairns).

Since section 67(1) of the Act provides that the income of a personal corporation whether actually distributed or not shall be deemed to have been distributed to, and received by, the shareholders as a dividend on the last day of each taxation year of the corporation, the profit received by the Company on the sale of the timber license was assessed to the shareholders of the Company, the appellant and the members of his family, pursuant to section 67(3) of the Act and not to the Company. The members of the family have also appealed from the decision of the Income Tax Appeal Board dismissing their appeals from their respective assessments for 1955, but since they are in the same position of tax liability or otherwise as the appellant it has been agreed by counsel that their appeals should stand over until after this appeal has been determined and that they will abide by its result.

To determine whether the profit on the sale of the timber license was the realization of an investment, as contended for the appellant, or a profit from a business, including therein an adventure or concern in the nature of trade, as held by the Minister, it is necessary to determine the true nature of the transaction relating to the timber license, including its purchase, the manner in

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which it was dealt with and its sale. It was one of several transactions of various kinds entered into by the appellant, some of which were for himself and others for his children or for the Company. It would, I think, assist in the determination of the issue to set them out even although some of them may seem irrelevant.

The appellant, who now resides at Vancouver, came to Canada from Europe in 1940 with his wife and their two infant children. He had previously been the managing director and shareholder of the biggest lumber company in what had been Austro-Hungary and had been in the lumber business for 33 years. He was, of course, familiar with the tremendous inflation that had followed the first world war but this had not affected him personally as much as it had others by reason of the fact that his assets had been in real estate or shares in the lumber company which had exported its products in exchange for sound money. When he came to Canada he brought with him not more than 10 per cent of his European assets. This was in the form of United States dollars which he exchanged for Canadian currency.

After his arrival in Canada he looked for a lumber business and found one in 1940, but his means were not sufficient to carry it on and he sold his share in it in 1941. Then he looked for something on a smaller scale and found it in the form of the Royston property near Courtenay on Vancouver Island. This was held by the Custodian of Alien Enemy Property. He purchased the assets of this property in the name of Somerset Limited, the Company to which I have referred, which he had caused to be incorporated for the purpose of taking over these assets, which included a saw mill and some timber. The Company held the assets for only a few days and then transferred them to the appellant, his brother Albert and their respective wives, who operated the property. They formed two companies, Royston Saw Mills Limited and Royston Logging Company Limited. These companies had difficulty in finding the necessary crew to operate the mill and closed it with a loss in 1944 and finally disposed of the mill and the timber in 1945. The appellant sold his interest at a profit. He had also had a substantial share interest in Eburn Sawmills Limited which he had also disposed of at a profit.

After the appellant had disposed of his interest in the Royston property he retired from the lumber business as such and from active business generally. But he continued to be the manager of the Company.

I now come to the circumstances in which the timber license was purchased. It had been issued under the *Land Act* of British Columbia to Joseph Chew Lumber and Shingle Manufacturing Co., Ltd. on October 24, 1912, for the period of one year, renewable from year to year, and is now subject to the *Forest Act* of British Columbia, R.S.B.C. 1948, Chapter 128, as amended. It is a timber license of the type that, while it is for the period of one year, it is renewable from year to year, subject to certain payments, as long as there is timber on the land covered by it, so that, in effect, the licensee is the owner of the timber. The amount required to be paid annually to hold the license, inclusive of taxes and fire protection fees, was about \$250.

The evidence relating to the purchase of the timber license may be put briefly. It was known to several timber license brokers, with whom the appellant was acquainted, that he was interested in buying a timber license and they offered several licenses to him. He considered some of them from the point of view of the timber covered by them but did not buy any until he bought the one in question. This was offered to him late in 1949 by Mr. E. R. Birnie, a timber license broker in Vancouver, whom he had known previously but with whom he had not had any previous dealings. Mr. Birnie knew that the appellant was a prospective purchaser of a timber license and offered him the timber license in question for \$6,000. After some discussion the appellant made a counter-offer of \$5,500. At the time the licensee, whose name had been changed from its former one to Joseph Chew Shingle Company Limited, was in voluntary liquidation. The timber license was the last asset in the estate and the liquidators were anxious to wind it up. Consequently, they gave the appellant an option to purchase the timber license for \$5,500. He then investigated the matter, including a report by Mr. Birnie to him, dated November 16, 1949, of the results of a timber cruise that had been made in 1912. Having made his investigation, the appellant took up the option. On his cross-examination he stated that he found that the timber license was "a fair buy." The evidence does not disclose the date of Mr. Birnie's offer or the appellant's

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counter-offer or the liquidator's option but the purchase of the timber license was not completed until June 2, 1950. All the dealings respecting the purchase of the timber license were transacted by the appellant but the title to it was taken in the name of the Trust Company, the purchase price coming out of funds held by the Trust Company for the appellant's children, and the license was held by it in trust for the children who were then still infants.

It is now desirable to refer further to the Company. It was incorporated on May 26, 1943, under the *Companies Act* of British Columbia, R.S.B.C. 1936, Chapter 42, now R.S.B.C. 1948, Chapter 58, and the object for which it was incorporated, as set out in its memorandum of association, was stated to be

- (a) For investment purposes only to purchase, take in exchange or otherwise acquire real and personal property of all kinds.

The appellant said that he had caused the Company to be incorporated because he and his wife wanted to have an investment Company for their children. This statement is not correct. On his cross-examination he admitted that it had been incorporated for the purpose of purchasing the Royston property assets from the Custodian of Alien Enemy Property, who was willing to accept it, rather than the appellant, as a purchaser, and that after it had served that purpose he had no further use for it and it lay dormant until 1952. Thus the appellant's statement that the Company had been incorporated because he and his wife wanted an investment Company for their children is plainly an afterthought. At the time of the incorporation the children's assets were held in trust for them by the Trust Company which then served as an investment company for them.

In 1952 the appellant decided to revive the Company. Up to that time it had no assets and had not done anything except to take over the assets of the Royston Company for a few days as already stated. The reason for the revival was that in 1952 the appellant bought a large apartment block, called Somerset Manor, in the name of the Company. The money for the purchase came partly from funds held by the Trust Company for the children and partly from the appellant against debentures issued by the Company after its re-organization.

Originally the Company's authorized capital consisted of \$10,000 in 100 shares of \$100 each but in December, 1952,

it consisted of \$10,000, divided into 200 preference shares of \$1 each, 4,800 common "A" shares of \$1 each and 5,000 common "B" shares of \$1 each. The holders of common "A" shares had no rights to participate in the profits or assets of the Company and the holders of common "B" shares had no right to attend or vote at general meetings of the Company.

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Counsel for the appellant stated, and the fact is confirmed by a table of adjustments for 1955 prepared by the Department, that 124 common "B" shares were issued to each of the children, that 50 common "A" shares were issued to the appellant and that 1 common "A" share was issued to each of the children with the result that while the beneficial interest in the Company was entirely in the children the appellant had complete control of it.

The appellant stated that it was his and his wife's intention to bring all the assets of the children into the Company. This was done in 1953. These assets consisted of cash, common stocks and the timber license. The authorized capital was increased by 100,000 preference "A" shares of \$1 each and each of the children who had now become of age, received preference "A" shares for the transfer of the assets respectively made by them. By reason of sections 17(1) and 17(2) of the Act the price at which the timber limit was transferred to the Company was stated to be at its fair market value of \$15,000 subject to certain conditions, and it was for half of this amount that preference "A" shares were issued to each of the children. The timber license was not actually transferred into the name of the Company but on June 26, 1953, the children directed the Trust Company to hold it in trust for the Company and to its order.

The timber license remained the property of the Company until it was sold in 1955. But before I set out the evidence relating to its sale I should refer to the reason given by the appellant for acquiring the timber license and the manner in which it was dealt with from the time of its acquisition to the time of its sale.

The appellant made much of his experience of inflation when he was in Europe prior to coming to Canada and stated that he had come to Canada with the knowledge that timber, real estate and company stocks were the investments that were safest against inflation, that his experience

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of inflation in Europe had motivated his actions in Canada and that this had been the reason why he had bought these three types of investments. He also said that he had a common purpose in the purchase of the timber license, the apartment block and the common stocks, namely, the benefit of the children, and that immediate income was not of tremendous interest because he had means of his own with which to support them. And he said that he had bought the timber license for an investment only, that he did not think at the time of its purchase of selling it at any time, that he wanted to keep it as an investment but that when he received such an offer as the one to which I shall refer and saw the possibilities of buying other pieces of real estate with the money he decided to sell.

The manner in which the timber license was dealt with while it was held for the children or by the Company is important. During that period, namely, from 1950 to 1955, there was no operation of any kind under the license by the appellant, the Trust Company or the Company. The appellant stated that revenue could have been obtained from the license in one of two ways, namely, either by cutting logs on the limits covered by the license and marketing them or by selling the right to cut logs and receiving royalties therefrom, the latter being the more usual way. But neither of these ways of obtaining revenues was followed. And when the appellant was asked why nothing had been done to obtain revenue from the license his answer was that he was looking at the timber limit as an investment—and not as a revenue producing property.

There is one other fact to which reference should now be made. The appellant was an experienced lumber business man and he knew the value of the timber license. The timber limits covered by it were on Gambier Island in Howe Sound about 10 miles from Vancouver. It will be remembered that when the timber license was transferred to the Company in 1953 its fair market value was put at \$15,000, subject to certain conditions that indicated that it might be more, and the appellant gave two reasons for the increase from the sum of \$5,500 which had been paid for the license in 1950. One of these was that the big lumber companies were buying up all the valuable timber so that the smaller companies were left practically without timber. The other

reason was that the Government of British Columbia had brought in a system of forest management licenses which had the effect of cutting the log supply of the small mills because not all of them could qualify for a forest management license. These facts gave a special value to the timber license. And there can be no doubt that the appellant with his lumbering experience and his knowledge of lumbering in British Columbia after his various activities in that field was fully aware of these factors and believed that they would be likely to make for an increase in the value of the timber license.

I now come to the evidence relating to its sale. There is some conflict in this. The appellant stated that Mr. Birnie, the person who had sold him the timber license in 1950, asked him whether he wanted to sell it because he had a buyer for it, that he repeatedly stated that he was not interested in selling it, that in November, 1954, Mr. Birnie told him that he had a buyer who was willing to pay \$50,000 for it and that then he became interested, that he thought that this was such a price that he could invest the money for the children's sake and that early in 1955 he gave Mr. Birnie a listing of it against \$5,000 down and \$45,000 in two or three months. The details of the listing are set out in a letter from the Trust Company to Mr. Birnie, dated January 31, 1955. It was an exclusive one for a period of a week at the price of \$50,000, on the basis of \$5,000 cash as option money and the balance of \$45,000 within 90 days, Mr. Birnie to be entitled to a commission of 10 per cent. On February 14, 1955, the Trust Company gave Mr. C. M. Johns a sole and exclusive option to purchase the timber license for \$50,000 to be open for acceptance until May 9, 1955. Subsequently, on May 10, 1955, Mr. Johns asked for a month's extension which was granted for \$2,000. The option was taken up and the purchase price paid to the Trust Company. The Company had a savings account with it and it credited the Company in its savings account with the amount of the money received. Thus the Company some time in June, 1955, received a net \$47,000 for the timber license after payment of the commission of \$5,000 to Mr. Birnie. The appellant said further that he thought that the price was an exorbitant one but that he saw other possibilities of investing the money and therefore decided to give Mr. Birnie a chance to sell it for \$50,000.

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Mr. Birnie's evidence differs from that given by the appellant. He stated that after he had sold the timber license to the appellant in 1950 he used to meet him on the street and ask him whether he did not feel like selling it, that no price was discussed and that the appellant said that he was not ready to sell, but that, finally, in November, 1954, the appellant set a price of \$50,000 for it and said that he would accept \$50,000 and pay 10 per cent commission, that he then worked on the matter for some time and had four or five interested good prospects, that he then asked the appellant for an option which he said he would get, that he had a verbal listing before that but nothing that would prevent the appellant from selling the timber license himself, that when he asked for the written option he told the appellant that he had a very likely prospect. After Mr. Birnie got the listing Mr. Johns came up from Portland and he made all the necessary arrangements and closed the purchase.

I should here add the fact that the appellant admitted on his cross-examination that about the middle of 1954 he had given a Mr. Kerwin an option to purchase the timber license for about the same amount as its eventual sale price and that Mr. Kerwin had paid \$1,000 for this option.

The first year for which the Company filed an income tax return was the year 1952. In that year its income, as shown by its financial statement, consisted of rent from the apartment block, Somerset Manor. In the following year, in which it had taken over from the Trust Company the assets of the children, the income consisted of rent and dividends from common shares in Canadian companies. In 1954 its income came from the same sources and the sum of \$1,000 received for the option given to Mr. Kerwin appeared in the statement of assets and liabilities. In the financial statement for 1955 the profit on the sale of the timber license was shown as a capital profit of \$32,236.68. This was the difference, subject to some adjustments of costs, between the net sum of \$47,000, left after payment of the commission of \$5,000, and the sum of \$15,000, said to be the fair market price of the timber license when it was turned over to the Company in 1953.

On February 15, 1957, the Minister re-assessed the appellant and the other members of the Company. To the

profit of \$7,180.66 reported by the Company for 1955 the Minister added the profit of \$32,236.68 made on the sale of the timber license making a total of \$39,417.34. Pursuant to section 67(3) of the Act this amount was deemed to have been distributed to the shareholders of the Company as follows, namely, \$12,298.21 to the appellant, \$12,455.88 to his son George Stekl, \$12,298.21 to his daughter Eva Cairns and \$2,365.04 to his wife Magdalena Stekl. On the re-assessment of February 12, 1957, the Minister added to the amount of income reported by the appellant on his income tax return for the year the sum of \$12,298.21. And the Minister in assessing the other members of the Company added to the amounts respectively reported by them the amounts respectively referred to, less the appropriate adjustments.

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There is no dispute about the amount of the assessment if the appellant and the others are found to be taxable. The appellant and the other members of the Company objected to the assessments but the Minister confirmed them and the appellant and the others appealed to the Income Tax Appeal Board which dismissed the appeals. It is from this decision and from the assessment that the appeal to this Court is brought.

Before commenting on the evidence I should refer to two arguments advanced by counsel for the appellant. He submitted, in effect, that since the Company's memorandum of association provided that the object for which it was incorporated was for investment purposes only it did not have the power to engage in business and that if it did so its act was *ultra vires* and void. But it is obvious that this cannot affect the taxability of a profit made by it if such profit was from a transaction that was a business transaction or an adventure or concern in the nature of trade. The taxability of the profits of a corporation depends on the true nature of its transaction, that is to say, on what it did, not on what it was empowered or not empowered to do.

And there is likewise no substance in the submission that if the Company was engaged in business resulting in a taxable profit it could not be a personal corporation and that, consequently, the corporation rather than the appellant and its members should have been assessed for the profit. The submission was based on section 68(1)

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(c) of the Act which included in the definition of a personal corporation the requirement that during the whole of the taxation year in respect of which the expression was applied the corporation "did not carry on an active financial, commercial or industrial business". In my opinion, even if the Company transaction relating to the timber was an adventure in the nature of trade that did not put it into the category of having carried on an "active" business in 1955 in such a way as to deprive it of its character as a personal corporation.

I should also point out that the fact that the net amount of \$47,000 received for the timber license was invested in common stocks, as appears from the Company's statements, cannot affect the question of whether the profit on the sale of the timber license was taxable or not for it is a well settled principle that the character of income cannot be affected by the use that is subsequently made of it. If the income was taxable when it was earned its taxability cannot be affected by the fact that it was put to a particular use: *vide Mersey Docks v. Lucas*¹, so that if the profit from the sale of the timber license was taxable as being profit from an adventure in the nature of trade it cannot cease to be such by reason of the fact that the amount of the sale price was used to purchase common shares as investments.

I should also refer to a factor that somewhat complicates the issue. The timber license was purchased in the name of the Trust Company which held it in trust for the appellant's children and it was sold in the name of the Trust Company which then held it in trust for the Company which had acquired it from the children in 1953 by the issue of preference shares. But the appellant was the prime mover throughout. He negotiated the purchase and also negotiated the sale. It will, therefore, be more convenient to deal with the transaction as if it had been his transaction for he acted on behalf of the children when the timber license was purchased. And when it was sold he acted for the Company of which he had complete control. His conduct must be considered as that of the persons for whom he acted from time to time.

I now come to my findings of fact and my conclusion as to the true nature of the transaction under consideration. I have mentioned that there was conflict in the evidence

relating to the sale of the timber license. I have no hesitation in saying that in this conflict I prefer the evidence of Mr. Birnie to that of the appellant. I do not believe his statements that when he bought the timber license he did not think of selling it at any time or that he was not interested in selling it or that it was not until after Mr. Birnie told him that he had a buyer who was willing to pay \$50,000 for it that he began to be interested. I prefer Mr. Birnie's statement that it was the appellant himself who set the price of \$50,000. This is borne out by the appellant's admission on his cross-examination that about the middle of 1954 he had given Mr. Kerwin an option to purchase the timber license for about the same amount as it was eventually sold for and that he had received \$1,000 from Mr. Kerwin for the option. This indicates that, notwithstanding his statements, he had tried to sell the timber license. And, while on his cross-examination he stated at first that he was not interested in the price of \$50,000 but in the possibility of investing it in some other way, he finally admitted that if the price was right he was prepared to have the Company sell. The appellant sought to convey the impression that he was a reluctant vendor but that the price of \$50,000 was exorbitant and he saw the possibility of investing the money and, consequently, decided to give Mr. Birnie a chance to sell it at \$50,000, whereas the fact is that he set the price of \$50,000 himself. I am satisfied that the appellant purchased and held the timber license with the intent, in the interests of the children, of selling it at a profit when what he considered was a good price could be obtained for it.

Moreover, I do not believe the appellant's statements that he bought the timber license for investment only and that he looked upon it as an investment. They did not ring true and the facts contradict him. He spoke as if the same consideration, namely, the fear of inflation, had motivated the purchase of the three types of property held by the Company, namely, the timber license, the apartment block and the common shares, and sought to convey the impression that they were basically the same. The facts do not support the statements or the impression. The appellant purchased the timber license in 1950 in a transaction that was quite different in character from that of the other transactions. The purchase of the apartment block in 1952 and the acquisition of the common shares in 1953 were plainly

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purchases of investments. Even if the fear of inflation motivated their acquisition, which I doubt, it had nothing whatever to do with the purchase of the timber license. The appellant bought it after examining several other timber licenses because he thought it was a "fair buy". I shall refer to this in greater detail later. Moreover, the timber license was different in character from that of the other types of property. It was not the kind of property that is normally used for investment. Revenue could not be produced from it except by some operation under it that was of a business nature, such as logging the timber and marketing it or selling the right to log the timber and receiving royalties. Revenue could not come from it by mere retention of it. In this respect it was different from the apartment block and the common shares. Nothing was ever done to produce any revenue from the timber license and it was never intended that any revenue should come from it. The appellant stated that he did not look upon the timber license as a revenue producing property. He was not interested in revenue from it. The fact is, notwithstanding his statements, that he did not purchase the timber license as an investment and did not really deal with or consider it as such. He was holding it for a rise in value and resale at a price which he considered really profitable. The fact that he had the children's welfare in mind does not affect the matter.

But, of course, the fact that a person held property for resale at a profit does not *per se* establish that the profit from its resale is a profit from an adventure or concern in the nature of trade. There was a clear application of this principle in *Commissioners of Inland Revenue v. Reinhold*,¹ on which counsel for the appellant strongly relied. In that case the respondent, a director of a company carrying on the business of warehousemen, bought four houses in January, 1945, and sold them at a profit in December, 1947. He admitted that he had bought the property with a view to resale, and had instructed his agents to sell whenever a suitable opportunity arose. On appeal before the General Commissioners he contended that the profit on the resale was not taxable. On behalf of the Crown it was contended that the purchase and sale of the property constituted an adventure in the nature of

¹ (1953) 34 T.C. 389.

trade, and that the profits arising therefrom were chargeable to income tax. The General Commissioners, being equally divided, allowed the appeal and the question of law for the opinion of the Court was whether they were justified in treating the profit as not assessable. It was held that the fact that the property was purchased with a view to resale did not of itself establish that the transaction was an adventure in the nature of trade, and that the Commissioners were justified in treating the profit as not assessable.

It appears from the reasons for judgment of Lord Carmont that the Lord Advocate, who appeared as counsel for the Crown, had argued that if at the time of purchase of the property the purchaser had resolved to sell on the happening of certain conditions, and *multo magis* if he had at the time of purchase instructed his agent to sell on the happening of that selected event, the transaction could never be treated as an investment but must be viewed as an adventure in the nature of trade and the profit or accretion treated as taxable income. The question could not have been put more directly. Lord Carmont could not accept this argument as valid. He relied upon the statement of Lord Dunedin in *Leeming v. Jones*:¹

... The fact that a man does not mean to hold an investment may be an item of evidence tending to show whether he is carrying on a trade or concern in the nature of trade in respect of his investments, but *per se* it leads to no conclusion whatever.

And then Lord Carmont stated, at page 392:

I do not wish, however, to read this passage out of its context and without regard to the facts then under consideration, and I draw attention to Lord Dunedin's language being used with reference to "an investment", meaning thereby, as I think, the purchase of something normally used to produce an annual return on such lands, houses, or stocks and shares. The language would, of course, cover the purchase of houses as in the present case, but would not cover a situation in which a purchaser bought a commodity which from its nature can give no annual return. This comment of mine is just another way of saying that certain transactions shew inherently that they are not investments but incursions into the realm of trade or adventures of that nature.

It is plain from this statement that Lord Carmont drew a distinction between the purchase for resale of property

¹ [1930] A.C. 415 at 423.

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normally used to produce an annual return and the purchase for resale of a commodity which from its nature can give no return. He repeated this distinction, at page 393:

A disclosed intention not to hold what was being bought might, as Lord Dunedin said, provide an item of evidence that the buyer intended to trade, and if the commodity purchased in the single transaction was not of a kind normally used for investment but for trading, and if the commodity could not produce an annual return by retention in the hands of the purchaser, then the conclusion may easily be reached that the venture was a trading one.

In view of the distinction thus made the decision in the *Reinhold* case (*supra*) does not apply to the facts in this one and the defendant cannot find any comfort in it. Indeed, there is warrant in it for finding that, since the timber license was not the kind of property that is normally used for investment and "could not produce an annual return by retention in the hands of the purchaser" and since an annual return from it could be produced only by an operation of business under it, the holding of the timber license for sale at a profit is some evidence that the profit made on its sale was a profit from an adventure in the nature of trade.

The meaning of the term "adventure in the nature of trade," contained in the definition of business in section 139(1)(e) of the Act, was considered by this Court in *Minister of National Revenue v. Taylor*.¹ There I reviewed the English cases dealing with the meaning of the term and defining its ambit, there being no Canadian decisions on the subject up to that time, and expressed the view that it is not possible to determine the limits of the ambit of the term or lay down any single criterion for deciding whether a particular transaction is an adventure in the nature of trade for the answer in each case must depend on the facts and surrounding circumstances of the case. This was simply the repetition of statements made in several cases, of which the statement of Lord Russell in the *Reinhold* case (*supra*), at page 394, is an example. There he said:

The profit of an isolated transaction by way of purchase and resale at a profit may be taxable income under Schedule D if the transaction is properly to be regarded as "an adventure in the nature of trade." In each case regard must be had to the character and circumstances of the particular transaction.

¹ [1956] C.T.C. 189.

It is the true nature of the transaction that must be determined.

But while it is not possible to lay down any single criterion of what constitutes an adventure in the nature of trade there are some specific guides in the decisions. One of them is that the nature and quantity of the subject matter of the transaction may be such as to exclude the possibility that its sale was the realization of an investment or otherwise of a capital nature or that it could have been disposed of otherwise than as a trade transaction: *vide* the reasons for judgment of Lord Sands in *Rutledge v. The Commissioners of Inland Revenue*¹ and the statement of Lord Carmont in the *Reinhold* case (*supra*), at page 392, that there are cases "where the commodity itself stamps the transaction as a trading venture." And there is an important guide in the decisions that if the transaction is of the same kind and carried on in the same way as a transaction of an ordinary trader or dealer in property of the same kind as the subject matter of the transaction it may fairly be called an adventure in the nature of trade. The decisions of the Lord President (Clyde) in *The Commissioners of Inland Revenue v. Livingston et al.*² and in the *Rutledge* case (*supra*), at page 497, and that of Lord Radcliffe in *Edwards v. Bairstow*³ clearly afford a guide of this sort.

These guides have assisted me in reaching the conclusion that the purchase and resale of the timber license was an adventure in the nature of trade. I have already referred to the fact that it was property of a different kind from that normally used for investment, such as the apartment block and the common shares, and that no revenue could be obtained from it and I have expressed the opinion that the decision in the *Reinhold* case warrants a finding that in the circumstances the holding of the timber license for sale at a profit is some evidence that the profit made on its sale was a profit from an adventure in the nature of trade and I so find. The timber license as such was valuable only for use in a business activity and if no business operation was done under it the only value that it could have would be the amount for which it could be sold. In my opinion, the factors to which I have referred indicate that the timber license was an asset such as a person engaged in the lumber

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¹ (1929) 14 T.C. 490 at 497.² (1926) 11 T.C. 538 at 542.³ [1955] 3 All E.R. 48 at 55.

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business would be likely to have and that it would be more fairly regarded as a business or trade asset than as part of an investment portfolio.

Moreover, the actions of the appellant, throughout the whole of the timber license transaction, were like those that might be expected from a trader. Its purchase bore all the indications of a trading venture. The appellant was an experienced lumber business man. He had been in that business for 33 years before he came to Canada and his first ventures in Canada were in the lumber business and, with the exception of his dealings with the Royston property, he made a profit out of them, including his first venture and a later association with Eburn Saw Mills Limited. And while he retired from active lumber business in 1945 his interest in it did not cease. He was anxious to acquire a timber license for the benefit of his children and it was known to several timber license brokers that he was in the market for one. He was in touch with market conditions and knew the value of such a property. Several timber licenses were offered to him and he considered some of them. Then when Mr. Birnie, who knew that he was a prospective purchaser, offered him the timber license in question for \$6,000 he was interested in it and obtained an option to purchase it for \$5,500. It was the last remaining asset of a company in liquidation and the liquidators were anxious to wind up the estate. The appellant investigated the facts and obtained a report of a timber cruise that had been made. He was satisfied with the report even although it was that of a cruise that had been made in 1912. After his investigation he purchased the timber license for the benefit of the children because, as he put it, he thought it was a "fair buy". I have no doubt in my mind that he knew that he had made a great bargain as, indeed, it turned out to be.

The appellant never did anything with the license either during the period when it was held by the Trust Company for the children or during the period when it was held for the Company and he never did intend to do anything with it except to sell it. No revenue was ever produced from it and it was not intended that any should be produced. The appellant did not look upon the timber license as a revenue producing property. He never dealt with it as an investment and I have no hesitation in finding that he never regarded it as such. He knew that the limits covered by the timber

license were favorably located and that there was every likelihood that there would be a substantial increase in its value. When he set its fair market value at \$15,000 when it was transferred to the Company in 1953 he knew that it was worth more than that. As a matter of fact, the appellant is fortunate that only the increase from \$15,000 to \$47,000 was assessed against the members of the Company. In my judgment, it is clear that the appellant was not interested in the timber license as an investment but held it for re-sale at the highest price that he could get and he knew that it would be a good one.

There is support for this conclusion in the appellant's efforts to sell the timber license. He knew, for the reasons given by him to which I have referred, that it was a valuable one. This is proved by the fact that about a year after its transfer to the Company he tried to sell it for approximately \$50,000 and that early in January, 1955, he listed it with Mr. Birnie for sale at \$50,000 and sold it for that amount.

Consequently, I find that the timber license transaction was an adventure in the nature of trade and that the profit resulting from its sale was a profit from an adventure in the nature of trade and, consequently, a profit from a business within the meaning of the definition in section 139(1)(e) of the Act and therefore taxable income under sections 3 and 4. The Minister was, therefore, right in assessing the appellant as he did and his appeal from the decision of the Income Tax Appeal Board and from the assessment for 1955 must be dismissed with costs.

Judgment accordingly.

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BETWEEN:
UNIPAK CARTONS LTD. PLAINTIFF;
AND
CROWN ZELLERBACH CANADA }
LIMITED } DEFENDANT.

Patents—Infringement—The Patent Act, 1935, S.C. 1935, c. 32, s. 47—Patent Act, R.S.C. 1952, c. 203, ss. 48, 58—Infringement a question of fact—Onus of proof of infringement on plaintiff—Patent specification addressed to persons skilled in relevant art—Improvement may be infringement—Meaning of “transverse” and “mutually transverse”—Statutory presumption of prima facie validity extends to all attributes of patentability—Onus of rebutting presumption of validity on defendant—Breadth of claim not invalidating if terms clear—To be invalidating prior use must be prior use of invention—Evidence of anticipation by prior user to be subjected to closest scrutiny—Onus of proof of prior invention heavy.

The plaintiff sued for infringement of its Canadian Patent No. 540,725, for improvements in cartons for receiving and carrying bottles or other articles. The particular object of the invention was to provide a carton that was fitted with a movable handle by which the carton and its contents could be carried. Other objects were to provide a carton that could be returned with its handle undamaged so that it could be used again for packing new articles and to provide a handle component that was also a dividing partition forming cells in the interior assembly of the carton for the reception of the bottles or other articles to be carried. Claim 1 of the patent defined the invention as follows:

“1. An enclosed carton of the type having a wall structure comprising side and end walls and a bottom, said carton including a top closure, and mutually transverse partition members defining article receiving compartments therein, and in which one such selected partition member includes a handle portion and is movable between a first retracted position in which said handle portion lies beneath said top closure and a second operative position in which said handle portion projects above said top closure, wherein at least one other of such partition members is fixed to the wall structure and co-operates with said selected partition members to limit movement thereof outward of such wall structure.”

The plaintiff alleged that the defendant had infringed its patent by the manufacture and sale of cartons of two types. Cartons of the first type came admittedly within the terms of Claim 1 of the patent but the defendant alleged that if it sold any cartons of that type after May 7, 1957, the date of the patent, which it denied, such sales were of cartons manufactured prior to that date and it was entitled to the benefit of section 58 of the *Patent Act*. The plaintiff pleaded in reply that the defendant had made untrue representations to the Patent Office in order to delay the issue of the patent and, in effect, charged it with fraud which disentitled it to any exemption from liability

under section 58. In respect of cartons of the second type the defendant denied that they were covered by any claim in the patent and counter-claimed for a declaration that it was invalid.

Held: That whether a defendant has infringed the plaintiff's patent is a question of fact and the onus of proof of the alleged infringement is on the plaintiff.

2. That infringement cannot be established by conjecture, that there must be proof of it, that there was no evidence that the defendant manufactured any cartons of the first type after May 7, 1957, and that it did not manufacture any such cartons after that date.
3. That there was no credible evidence that the defendant sold any such cartons after May 7, 1957.
4. That there was no evidence of any improper conduct on the part of the defendant that would disentitle it to the relief that section 58 of the Act would have provided if it had needed to rely on it.
5. That the plaintiff's action must be dismissed to the extent that it alleged infringement by the manufacture or sale of cartons of the first type.
6. That whether the defendant infringed the patent by the manufacture and sale of cartons of the second type depends on the construction of the claims and whether the cartons came within them.
7. That the claims must be construed in order to ascertain what the invention defined by them is.
8. That a patent specification, which includes the claims, is addressed to persons skilled in the art to which the patent relates and that the claims should be read in the light of the common knowledge which such persons are assumed to have.
9. That if the Court is to construe the claims properly it must, as far as possible, be put in the same position as such persons would be.
10. That, ordinarily, this purpose is sought to be accomplished with the aid of expert evidence on such matters as the state of the art at the date of the patent, the meaning of technical terms and terms of art and the working of the invention.
11. That there are cases in which the claims are expressed in such plain and common language that the Court can construe them and ascertain the invention defined by them without any aid beyond the language used in formulating them and that Claim 1 of the patent is a claim of this nature.
12. That an improvement may be an infringement even if it is patentable.
13. That the fact that there are differences between the cartons of the second type and the cartons produced by the plaintiff does not determine the matter of infringement if the terms of Claim 1 are met by such cartons, notwithstanding such differences.
14. That it is essential to ascertain the meanings of the word "transverse" and the term "mutually transverse" in the Claim.
15. That it is an essential requirement of the Claim that there should be at least two partition members and that they should be mutually transverse, meaning thereby that each must lie across or be situated or lie crosswise of or athwart the other or be situated or extend across its length. The relationship between the partition members must be a reciprocal one. They must cross one another.

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16. That, although there was a seeming difference between the cartons of the second type and those produced by the plaintiff, all the elements specified in Claim 1 were present in them and they functioned in the manner specified in the claim to accomplish the unitary result contemplated by it and that the defendant has infringed the plaintiff's rights under it.
17. That the manufacture and sale of the cartons of the second type also infringed Claims 4, 5, 6 and 7 of the patent to the extent that each includes Claim 1.
18. That the statutory presumption of *prima facie* validity of a patent provided by section 48 of the *Patent Act* is not confined to the attribute of inventiveness but extends to the other attributes that a patent must have if it is to be patentable under the Act, such as novelty and utility, and that the three attributes of patentability, namely, novelty, utility and inventiveness are all presumed to be present in an invention for which a patent has been granted under the Act until the contrary is clearly shown.
19. That the plaintiff starts with the statutory presumption of validity of its patent in its favor, that the onus is on the defendant to rebut it and that the defendant has failed to do so.
20. That there is no support for the contention that the invention covered by the patent lacks utility. The cartons produced by the plaintiff had many advantages over the beer cartons previously in use and enjoyed a substantial market in the Vancouver area.
21. That Claim 1 might extend to a carton other than that of the second type but that does not make it ambiguous or avoidably obscure. Whether it would so extend would depend on whether the particular carton has the elements specified in the claim and whether they function in the specified manner.
22. The fact that the ambit of Claim 1 is broad does not invalidate it if its terms are clear and that the attack on its validity based on the charge of ambiguity and avoidable obscurity fails.
23. That if a patent is to be invalidated on the ground that the invention for which it was granted lacks novelty by reason of the fact that there was a prior use of it the party attacking the patent on that ground must show that the alleged prior use was a use of the invention described and claimed in it.
24. That the principles stated in the cases determining the requirements that a prior patent or other publication must meet before it can be considered as anticipatory of an invention apply with equal force in the case of an alleged anticipation by prior use.
25. That evidence purporting to show that the invention was anticipated by a prior user of it should be subjected to the closest scrutiny.
26. That the onus of proof of a prior invention is a very heavy one.
27. That the cartons put forward on behalf of the defendant as prior uses of the invention defined in Claim 1 were not prior uses of it.
28. That Claim 1 and Claims 4, 5, 6 and 7 to the extent that each includes Claim 1 are valid.
29. That the defendant's counterclaim is dismissed.
30. That the defendant is entitled to the costs properly attributable to the undue extension of time of the trial by the introduction of the issue of infringement of the patent by the manufacture and sale of cartons of the first type.

ACTION for infringement of patent.

The trial was commenced before the President of the Court at Victoria and continued at Ottawa.

Gordon F. Henderson, Q.C., and David Watson for plaintiff.

Christopher Robinson, Q.C., Russel S. Smart and Hugh P. Legg for defendant.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (March 14, 1960) delivered the following judgment:

The plaintiff brings this action for infringement of its Canadian Letters Patent Number 540,725, issued to it on May 7, 1957, as the assignee of its plant superintendent, Steve Pasjack, the inventor of the invention covered by it. The defendant denies infringement and counterclaims for a declaration of invalidity of the patent.

The invention relates to improvements in cartons. At the trial the evidence dealt particularly with cartons for carrying a dozen bottles of beer but the patent does not limit them to such use. The particular object of the invention was to provide a carton that was fitted with a movable handle by which the carton and its contents could be carried. Other objects were to provide a carton that could be returned with its handle undamaged so that it could be used again for packing new articles and to provide a handle component that was also a dividing partition forming cells in the interior assembly of the carton for the reception of the bottles or other articles to be carried.

The invention is described in the specification and illustrated in its accompanying drawings. A beer carton embodying it was filed by counsel for the plaintiff as Exhibit 4. This exemplifies the beer cartons produced and dealt with by the plaintiff under its patent. It will, therefore, be convenient to refer to such cartons simply as Exhibit 4 or as Exhibit 4 type cartons, and since Exhibit 4 embodies the invention covered by the patent a specific description of it, consistent with that disclosed in the specification, will be in order.

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Exhibit 4 has a wall structure of side and end walls and top and bottom closures of side and end flaps. The wall structure and the top and bottom closures are formed out of a single carton blank which is creased to provide the side and end walls and the side and end flaps of the top and bottom closures. The free end of the side wall portion of the carton blank at the right of the blank is provided with a tab which can be united with the free end of the end wall portion at the left of the blank, at what was called in the evidence the manufacturer's gap, by a pressure setting resin glue. Each of the side flaps of the top closure portion is cut back to form a recess for the grip portion of the handle member and at the centre of each recessed portion a finger drop is provided. I might here state that Exhibit 4 is made of fibreboard, also called chip board, box board or beer carton board, but corrugated paper board may be used instead. Before the manufacturer's gap is closed glue is put on an area on each of the side wall portions for its full length at which the end tabs of the lateral partition strips are to be fixed to the side wall portions.

The interior assembly of Exhibit 4, being the filler structure referred to in the specification, may now be described. It consists of mutually transverse partition members that define article receiving compartments, that is to say, cells for holding the beer bottles or other articles separate from one another. One of the partition members is described in the specification as the handle member and the others of which there are five, are called the filler members. In the evidence the handle member was usually referred to as the longitudinal partition or divider by reason of the fact that it runs the length of the carton and divides the dozen cells into two rows of six cells each. The filler members were referred to in various terms, most frequently as the transverse dividers. They are lateral partitions transverse to the longitudinal partition. The handle member includes a hand grip and a wall portion in which there are vertical slots through which the lateral partitions pass, the slots being considerably longer than the vertical dimensions of the lateral partitions, each slot having an offset edge which projects beyond the normal plane of the handle member. The lateral partitions are made of strips of material which are creased to define end tabs which are bent only when the carton is opened into box form. Each lateral partition strip

has a V-shaped notch at the centre of its top and a gap at the bottom of the notch. This V-shaped notch with the gap at its bottom was sometimes referred to as a Y-shaped notch. The end tabs are coated with glue so that when they are laid down upon or come in contact with the glued areas of the side wall portions previously referred to and the proper parts are pressed together a proper bond will be formed.

The assembly of Exhibit 4 involves several operations. The lateral partition strips are laid on the side wall portion of the blank near its left end in an overlapping arrangement with their end tabs bent and lying on the glued area. The free ends of the lateral portion strips, which are also creased to provide end tabs, are extended to the right and slightly elevated. The handle member is then laid down on the lateral strips with the offset edges of the slots of its wall portion extending diagonally so that as it is moved to the left the free end of each lateral partition strip is threaded into and made to pass through its corresponding slot. The upper end of the hand grip portion of the handle member will then be above the upper limit of the side wall portion but may be aligned with it by moving the handle member so that the upper edges of the vertical slots will enter the corresponding V-shaped notches of the lateral partition strips and be lodged in the gaps below the V. The side wall portion of the blank carton at its right is then folded over so that its glued area is over the free end tabs of the lateral partition strips and the end wall portion at the left of the carton blank is then folded over the glued end tab of the said side wall portion. The knock down carton is then subjected to pressure in order to bind all the glued parts to their counterparts.

The carton is sold in this knock down form. The purchaser opens it up to a rectangular form and closes the bottom by folding the bottom end and side flaps. These are sealed by glue or tapes. The carton is then filled, the top is closed by folding the top and side flaps and the top is then sealed with a glued tape.

The purchaser of the filled carton slits the tape, inserts a finger through the finger gap and lifts up the handle member until the lower edges of its slots engage the under edges of the lateral partitions. He is then able to carry the carton and its contents.

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The fact that the vertical slots in the wall portion of the handle member are longer than the vertical dimensions of the lateral partitions enables the handle member to move from its retracted position in which all of it lies below the top closure of the carton to its operative position in which the hand grip portion of the handle member projects above the top closure of the carton so that it and its contents can be carried. And the fact that the end tabs of the lateral partitions are glued to the side walls of the carton and are thus fixed to its wall structure enables the lateral partition members to cooperate with the handle member when it is in its operative position to limit the movement of the handle member outward of the wall structure or, in other words, to prevent it from coming out of the carton when it is being carried.

Thus the invention accomplishes the objects sought to be achieved. The evidence establishes that Exhibit 4 was a great improvement over the beer cartons previously in use and substantially solved the problems involved in their use. Evidence of the state of the prior art, the problems to be solved and the manner of their solution by the use of Exhibit 4 was given for the plaintiff by Mr. N. J. Macdonald, its general manager, and Mr. J. B. Treloar of Sommerville Limited of London, Ontario, one of its licensees.

I accept the evidence of these witnesses on the subjects mentioned and now summarize it. The first pack used by the breweries was a flat one. The full beer bottles were enclosed in paper sleeves and laid on their sides in the pack in two rows of six bottles each, one row on top of the other. There were serious disadvantages in its use. In the first place, two separate sources of supply were necessary, the packs being secured from one and the sleeves from another. At the brewery there were several problems. The filled bottles came from the bottle filling equipment on a conveyor belt in a single file and men were stationed on each side of it to put the sleeves on the bottles. Lower down men on each side of the belt placed the bottles on their sides in the pack and then sealed it. The process was slow and expensive because of the labor cost involved. When the cartons came back for re-use either the bottles had no sleeves and there was a risk of breakage or they had sleeves and there was labor and waste in taking them off.

The consumer found the pack awkward to carry by reason of its not having a handle and he had the problem of disposing of the sleeves or of putting them back on the bottles. In addition, there was the risk of contamination of the beer by reason of the bottles lying flat and the beer touching the metal of the bottle cap. The pack did not lend itself to automatic packing and the breweries were anxious to be free from its use. They wanted greater production and less labor cost.

In Eastern Canada upright 3×4 cartons with loose dividers were in use. Since these had two components their use created a storage problem in the brewery. There was also a labor problem. The carton had to be opened by hand, the bottom secured and the loose dividers assembled and placed in the carton. And while automatic packing could be used there was a tendency to misalignment of the partitions because of the loose dividers and a consequent hang-up in the packing with a risk of breakage. Moreover, the consumer did not like the carton. It had no handle and was bulky and awkward to carry.

In February, 1953, the plaintiff was incorporated under the laws of British Columbia and acquired a right to a 3×4 upright carton with glued-in dividers, which Steve Pasjack had designed. While it was getting its plant ready to produce this carton the breweries in the Vancouver area had already obtained 3×4 cartons with loose dividers and when the plaintiff had produced some of its cartons it could not sell them. The breweries wanted a carton that could be carried.

The plaintiff then discontinued work on its 3×4 carton and Steve Pasjack worked on and finally produced a 2×6 carton with glued-in partitions and a movable handle.

In the meantime, a 2×6 carton with loose dividers and without a handle had appeared in the Vancouver area. It was even worse than the 3×4 carton so far as hang-ups were concerned. The only contact the longitudinal divider had with the transverse dividers was on the longitudinal divider itself so that the dividers could easily become misaligned and this actually happened.

In Eastern Canada a 2×6 carton of a different kind came into extensive use. It was covered by Canadian Letters Patent Number 462,374, dated January 10, 1950, and issued to John W. Kidd. It was commonly known as the Kidd

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carton and sometimes called the Labatt carton. It had an interior assembly consisting of a longitudinal handle member and five lateral members all loose. There were three types of this carton. In the first one the top end and side flaps were turned down and the side flaps glued to the end ones. When the customer lifted the handle its shoulders bore against the under sides of the glued-down end flaps and he was able to carry the carton and its contents. But when he wished to return the empties he had to tuck the top end flaps down in order to keep the shoulders of the handle in place. In the second type, exemplified by Exhibits 8 and 8A, the top side flaps were equipped with elliptical extensions at their ends. The top end flaps were turned down at the brewery and the top was closed by gluing the extensions to one another. The customer could carry the filled carton because the turned-down top end flaps engaged the shoulders of the handle and prevented it from coming out of the carton. When he opened the carton he had to turn up the end flaps to get at the bottles in the end cells and when he wished to return the empties he had to tuck the end flaps down again. The third type was similar in principle to the first. The Kidd carton, even although equipped with a handle, had several disadvantages. Its price was higher than the breweries wanted to pay and its use in the brewery created several problems. One was that of multiple storage of the component parts and another the high labor cost of putting the loose assembly together and into the carton. Since the dividers were loose they could flop around and thus cause hang-ups in the automatic packing. Moreover, if the top end flaps, which were turned down either at the brewery or by the customer to return empties, became disengaged the whole interior assembly pulled out with resulting bottle breakage.

The 2×6 carton with the glued-in partitions and movable handle produced by Steve Pasjack was ready for the market in September, 1953, and met with immediate acceptance. Two of the Vancouver breweries, the Vancouver Brewery and the Sick's Capilano Brewery, used it exclusively. It solved many of the problems referred to. The interior assembly was self-aligning and the carton, therefore, lent itself to automatic packing. And the customer found it handy to carry and return with empties. But it was difficult to make and costly. The plaintiff was tied to a price of

\$110 per thousand and in an effort to reduce the cost of production it cheapened the material. The result was that the handle was too weak so that it tended to break and cause the loaded carton to fall. The breweries complained of this weakness and on November 26, 1953, the plaintiff shut down its machines until the difficulty could be solved.

Then early in December, 1953, Steve Pasjack came up with a carton of the type of Exhibit 4. It was first produced on December 17, 1953, and first sold on the following day at the price of \$110 per thousand. The breweries that had purchased the plaintiff's first 2×6 carton felt that the new one solved all their problems and used it exclusively. Eventually, the Lucky Lager Brewery at New Westminster also purchased it as from November 29, 1954, so that by then the plaintiff had all the dozen bottle carton business of the Vancouver area breweries. It also supplied the needs of other breweries, such as those at Fernie, Princeton and Revelstoke in British Columbia and Red Deer in Alberta.

Exhibit 4 had many advantages over the beer cartons previously in use. From the manufacturer's point of view it used less material and was easier to produce than the previous 2×6 carton. It lent itself to manufacture with either corrugated paper or fibreboard. In the brewery it reduced labor cost. And the presence of the handle in its retracted position enabled the filled carton to be palletized and conveniently stacked with a saving of storage space. The carton also lent itself readily to automatic packing. The problem of hang-ups was solved. The consumer found it an easy one to carry and it was convenient for the return of the empty bottles.

The plaintiff continued to hold the whole of the dozen carton business of all the three breweries in the Vancouver area until the defendant produced the cartons of which the plaintiff now complains and cut their price down to \$100.50 per thousand.

There is thus no doubt about the utility of Exhibit 4. Nevertheless, the plaintiff continued to improve it. In February, 1954, it obtained the services of Dr. C. G. Lemon as a consultant and he set himself the task of making improvements. He strengthened the handle of Exhibit 4 and then developed the idea of making the interior assembly, apart from the handle member, out of one piece of material with lateral wings struck out from the sides of a

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longitudinal so-called envelope from which the grip portion of the movable handle member emerged. This carton, a sample of which was filed as Exhibit 22, was shown by Dr. Lemon to Mr. Macdonald sometime before August, 1954. It was not put into immediate use but was shelved in September, 1954 for future use. It led to the filing of a patent application by Dr. Lemon which is still pending. The relations between Steve Pasjack and Dr. Lemon became strained and Steve Pasjack left the plaintiff's employ in May, 1955, and subsequently entered into contractual relationship with the defendant. In view of the fact that a beer carton of the type of Exhibit 22 is involved in conflict proceedings between the parties now pending in this Court I do not describe Exhibit 22 further. But a brief reference to improvements in the centering means on the lateral partitions of Exhibit 4 will not be amiss. There were some complaints from the breweries about the lack of centering of the longitudinal handle member and an improvement in the centering means was devised. At the bottom of the gap below the V-shaped notch or, to put it otherwise, at the bottom of the foot of the Y-shaped notch there was a lateral cut above which there was a bendable tab on each side of the leg of the Y and above the lateral cut. This enabled the longitudinal handle member to enter into the gap between the tabs and be gripped by them. This was an improvement, for the handle member was held more firmly. The plaintiff also decided to build a high speed machine for cutting the lateral partition strips more quickly and this machine was devised in such a way that it would cut the strips with the improved notch. A sample of a carton with this improved notch was filed as Exhibit 38. It came into use in 1954. Apart from this improvement in the notch and the strengthened handle member Exhibit 38 was the same as Exhibit 4. Another improvement in the centering means came in 1957. A new machine was built for an automatic assembly of the carton to take the place of the manual assembly of Exhibit 4 already described. It was found that the centering means provided in Exhibit 4 or Exhibit 38 did not lend itself to the contemplated automatic assembly and a new centering means had to be devised. The top notch of the lateral partition strip was made wider but the gap at the bottom of the notch and the bendable tabs as in Exhibit 38 were eliminated. In their stead a gap with

bendable tabs on each side of it was cut at the centre of the bottom of the lateral strip opposite the centre of the notch at the top. The two outside slots of the longitudinal handle member were also cut differently so that the handle member could enter the gap at the bottom and be locked. This method of locking the handle member lent itself to the automatic assembly process. A new machine was then built to cut the lateral partition strips with this new centering means so that the handle member could be locked in the course of the automatic assembly instead of having to be locked manually as was necessary in the case of Exhibits 4 and 38. It was now possible to accomplish the automatic assembly of the carton. A sample of a carton thus produced was filed as Exhibit H. Apart from the improvement in the centering means it was the same as Exhibit 38.

There were other improvements such as are exemplified by cartons of which samples were filed as Exhibit 29 and Exhibit 41 but these relate more particularly to Exhibit 22, the carton devised by Dr. Lemon, than to Exhibit 4 and, for the purposes of this case, need not be described. Cartons of the type of Exhibit 38 and Exhibit H may fairly be referred to as Exhibit 4 type cartons.

As already stated, the plaintiff continued to hold all the dozen bottle beer carton business of the three Vancouver area breweries until after the defendant had produced a beer carton, similar in principle to Exhibit 4. A sample of this was filed as Exhibit 12. Cartons of this type will be referred to simply as Exhibit 12 or Exhibit 12 type cartons. Exhibit 12 was first offered to the breweries early in the summer of 1956 at \$100.50 per thousand. The plaintiff could not meet this reduced price with the result that it lost to the defendant all the Vancouver area business that it had enjoyed and had to close down its plant in September of 1956.

The plaintiff intended to re-open after its patent situation was cleared. Steve Pasjack's application for a patent covering the Exhibit 4 type carton had been filed on June 9, 1954. Nothing happened to it until after the filing of a patent application by Joseph Vesak, an employee of the defendant. His application was filed on April 9, 1956. Then, on October 10, 1956, a conflict between the Pasjack and Vesak applications was declared by the Commissioner of Patents.

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Subsequently, the conflict proceedings were terminated because of the fact that Vesak's application had been filed more than two years after Exhibit 4 had come on the market. It is not necessary to deal with this matter further than to say that in the course of the proceedings claims 1 and 2 in Vesak's application were awarded to the plaintiff and became claims 8 and 9 of the patent in suit when it finally issued on May 7, 1957. Then a patent was issued to the defendant as the assignee of Joseph Vesak covering features in his carton invention that were not present in Pasjack's.

The delay in the issue of the patent in suit had caused a slow-down in negotiations between Sommerville Limited and the plaintiff for a license and these were not resumed until after the issue of the patent.

The plaintiff then decided to re-open its plant before the issue of the patent and did so in February, 1957. It then offered Exhibit 4 in its improved form at \$100.50 per thousand. Then prior to the issue of the patent on May 7, 1957, the defendant had produced and offered to the breweries an improvement over Exhibit 4 or Exhibit 12, a sample of which was filed as Exhibit 13. Cartons of this sort will be referred to simply as Exhibit 13 or Exhibit 13 type cartons. This carton was offered to the breweries at \$100.50 per thousand in April of 1957 and was in continuous production and sale by the defendant after the date of the plaintiff's patent. Then on July 12, 1957, the plaintiff brought this action.

Subsequently, the plaintiff issued licenses under the patent in suit and other patents and inventions claimed in pending applications to various concerns one of which was Sommerville Limited. The license to it was issued on December 5, 1957. Subsequently, the plaintiff decided that its production operation at Vancouver was uneconomical and it closed its plant. Since then its activities have been confined to issuing licenses and receiving royalties.

It is alleged in the plaintiff's amended particulars of breach that the defendant infringed the patent in suit by the manufacture and sale of cartons. The cartons in question are of two types, one being referred to as Exhibit 12 and the other as Exhibit 13.

Although the defendant has challenged the validity of the plaintiff's patent it will be convenient to deal with the

issues of infringement first, but before I do so I should set out the claims in suit. According to the amended pleadings these are claims 1, 2, 4, 5, 6, 7, 8 and 9 with respect to Exhibit 12 and claims 1, 4, 5, 6 and 7 with respect to Exhibit 13. The said claims are as follows:

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1. An enclosed carton of the type having a wall structure comprising side and end walls and a bottom, said carton including a top closure, and mutually transverse partition members defining article receiving compartments therein, and in which one such selected partition member includes a handle portion and is movable between a first retracted position in which said handle portion lies beneath said top closure and a second operative position in which said handle portion projects above said top closure, wherein at least one other of such partition members is fixed to the wall structure and co-operates with said selected partition member to limit movement thereof outward of such wall structure.

2. An enclosed carton of the type having a wall structure comprising side and end walls and a bottom, said carton including a top closure, and mutually transverse partition members defining article receiving compartments therein, and in which one such selected partition member includes a handle portion and is movable between a first retracted position in which said handle portion lies beneath said top closure, and a second operative position in which said handle portion projects above said top closure, and shoulders on said handle portion co-operate with the underside of said top closure to limit further outward movement of such selected partition member, wherein at least one other of such partition members is fixed to the wall structure and co-operates with said selected partition member to limit movement thereof outward of such wall structure after displacement of said top closure from co-operating relationship with said shoulders.

4. An enclosed carton as claimed in Claims 1 or 2 wherein means are provided for locating said selected partition member in relation to said one other of such partition members.

5. An enclosed carton as claimed in Claims 1 or 2 wherein said selected partition member is provided with an extension forming a grip extending, when said selected partition member is in its first retracted position, to the height of the wall structure.

6. An enclosed carton as claimed in Claims 1 or 2 wherein the top closure includes a first pair of top flaps and a second pair of top flaps which are arranged at right angles to, and adapted to overlie, the first mentioned pair of top flaps, said second pair of top flaps meeting, when closed, adjacent the centre of the carton and adapted to be held in closed position by means of a glued tape.

7. An enclosed carton as claimed in Claims 1 or 2 wherein said selected partition member is provided with an extension forming a grip extending, when said selected partition member is in its first retracted position, to the height of the wall structure and wherein the top closure includes a first pair of top flaps and a second pair of top flaps which are arranged at right angles to, and adapted to overlie, the first mentioned pair of top flaps, said second pair of top flaps meeting, when closed, adjacent the centre of the carton and adapted to be held in closed position by means of a glued tape, said second pair of top flaps being recessed intermediate the length of their meeting edges to provide an elongated aperture

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through which the grip of said selected partition member may be withdrawn so as to move said selected partition member to its second operative position.

8. A carrier carton comprising a case having side and end walls, a top and a bottom, a plurality of spaced transverse partitions secured at the ends thereof to the side walls, a longitudinal partition extending longitudinally of the case and having slots therein through which the transverse partitions extend, said longitudinal partition being movable vertically relative to the transverse partitions and said partitions dividing the case into cells, means coacting with the longitudinal and transverse partitions to prevent movement of at least a part of the longitudinal partition laterally of the case, means to limit the upward movement of the longitudinal partition, and a handle connected to the top of and movable with the longitudinal partition and extending upwardly therefrom, said handle being completely in the case when the longitudinal partition is near the bottom thereof and being movable in a position projecting above the case top.

9. A carrier carton as claimed in Claim 8 in which the handle is provided with shoulders projecting from the ends thereof that when the handle is moved upwardly engage the closed case top to stop the movement of the longitudinal partition.

The commercial magnitude of the issues involved in this case is indicated by the fact that Sommerville Limited, one of the plaintiff's licensees, sells from three and a half to four million cartons per year to Labatt's brewery and from seven to eight million cartons per year to Carling's.

The charge that the defendant infringed the claims in suit by the manufacture and sale of Exhibit 12 presents no difficulty. It is without support and I have no hesitation in dismissing it. But before I set out the evidence relating to the matter I should refer to the manner in which this particular issue arose and the pleadings to which it gave rise. It is clear that it was understood between counsel long before the date of the trial that Exhibit 12 need not be considered unless counsel for the plaintiff advised counsel for the defendant otherwise and the preparation of the case proceeded on that understanding until just shortly before the date of the trial. It was not until then that counsel for the defendant was advised that Exhibit 12 as well as Exhibit 13 would be in issue. Then on the opening of the trial leave was given to counsel for the plaintiff to amend its particulars of breaches accordingly although, strictly speaking, such leave was unnecessary. Then, consequentially and also pursuant to leave, counsel for the defendant amended its statement of defence by alleging, in effect, that if the defendant sold any Exhibit 12 type cartons after May 7, 1957, such sales were of cartons manufactured prior to such

date and the defendant, under section 58 of the *Patent Act*, R.S.C. 1952 Chapter 203, was not liable for infringement in respect thereof. Then counsel for the plaintiff, pursuant to leave given after strong objection by counsel for the defendant, filed a reply to the amended statement of defence alleging that in equity the defendant was precluded from relying on section 58 of the Act by reason of the fact, in effect, that in the course of Vesak's patent application it had made or caused to be made representations to the Patent Office that were intended to be acted upon by it so that a conflict would be declared which was calculated to delay, and did delay, the issue of the plaintiff's patent and that such representations were untrue and were known or should have been known by the defendant to be untrue, and, in the alternative, that they were made recklessly without regard to their truth. This was plainly a charge that the defendant had been guilty of fraud and had thereby disentitled itself to any exemption from liability under section 58 of the Act.

Whether a defendant has infringed the plaintiff's patent is a question of fact and the onus of proof of the alleged infringement is on the plaintiff. In the present case it is admitted that Exhibit 12 comes within the terms of claim 1 of the patent in suit and there is no doubt that it comes within the terms of claims 8 and 9. It is, therefore, not necessary to describe Exhibit 12 or set out the differences between it and Exhibit 4 which warranted the issue of a patent to the defendant covering the features of Exhibit 12 that were not present in Exhibit 4.

The evidence is that Joseph Vesak designed Exhibit 12 late in July or early in August of 1953, that he was responsible for its production and that it went into commercial production early in July of 1956. But there was no evidence that could possibly warrant a finding that the defendant manufactured it after May 7, 1957. Indeed, the evidence is conclusive that it stopped producing it on May 3, 1957, made preparations on the following day, being Saturday, May 4, 1957, for the production of its new carton, Exhibit 13, and commenced its actual production on May 6, 1957. The evidence of Mr. B. Gourlay, the defendant's director of economic planning, taken from his examination for discovery as an officer of the defendant and put in by counsel for the defendant under the authority of the General Rules

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and Orders of this Court, was that Exhibit 12 was produced by the defendant from July 9, 1956, to May 3, 1957, and that it stopped producing it on the latter date. There was also the positive statement of Mr. G. R. Sharpe, the defendant's box plant manager, that it stopped making Exhibit 12 on Friday, May 3, 1957, and began the production of Exhibit 13 on May 6, 1957, and that Exhibits 12 and 13 were not in commercial production simultaneously.

It was also shown by the defendant's weekly letters, filed as Exhibit Z-11, that the defendant had made plans that the production of its new carton should commence on May 6, 1957, and that no partitions or handles for the old carton should then be on hand. These plans were carried out. The weekly letter of May 17, 1957, states that the defendant "began production of the new beer box May 6th, on schedule," and the production record of the defendant's glue applicator No. 462 for May 6, 1957, being part of Exhibit 83, filed by counsel for the plaintiff, shows that on that date girls were being trained for and working on the new boxes. It was proved that the partitions that were glued into Exhibit 12 were made on a machine called the Inman machine. Counsel for the plaintiff filed the production record of the defendant's Inman partition machine No. 575 for May 1, 1957. This shows that on that day 20,300 partitions were piled in boxes. There was no evidence of any production of Inman machine partitions after that date. Indeed, Mr. Sharpe stated positively that on May 3, 1957 there were no old style or partition assemblies for the old box design left on hand. That being so, the defendant could not manufacture Exhibit 12 after May 3, 1957.

Notwithstanding this clear evidence counsel for the plaintiff contended that the defendant continued to produce Exhibit 12 after May 7, 1957. In support of his contention he relied on Exhibit 81 and Exhibit 82. The former shows, as already stated, that 20,300 Inman machine partitions were made and piled in boxes on May 1, 1957. Exhibit 82 was the production record of the defendant's glue applicator No. 462 for May 11, 1957, and it shows that 12,125 cartons went through the glue applicator on that day. It is clear, of course, that the Inman machine partitions made on May 1, 1957, were intended for use in the production of Exhibit 12 type cartons. At that date the only cartons being produced by the defendant were cartons of that type. Both

Exhibit 81 and Exhibit 82 showed production under the same order number, namely, Order 8342 A-41 and counsel based his whole case on that fact. His argument, in effect, was that since Exhibit 12 type cartons were being used prior to May 7, 1957, to supply Order 8342 A-41 it was reasonable to assume that when that number appeared on a production record after that date Exhibit 12 was still being produced. It was, accordingly, submitted that the partitions that were glued in to the 12,125 cartons on May 11, 1957, as shown by Exhibit 82, came out of the 20,300 Inman machine partitions that were piled in boxes on May 1, 1957, as shown by Exhibit 81, and it was argued that a prima facie case had thus been made that Exhibit 12 type cartons were produced on May 11, 1957.

There is no warrant for counsel's assumption. It was nothing more than conjecture on his part. While Exhibit 81 shows that 20,300 Inman machine partitions were piled in boxes on May 1, 1957, there is no record of how many were left at the end of the day. Mr. Sharpe stated that when a box was filled with partitions it was taken immediately to the glue applicator and the production records for it, filed as Exhibit Z-14, show that the beer lines were running on May 1, 1957, and that on that day partitions were glued into 26,975 cartons produced to supply Order 8342 A-41. I have already referred to Mr. Sharpe's positive statement that on May 3, 1957, there were no old style or partition assemblies for the old box design left on hand. And Mr. Sharpe emphatically denied that the defendant was producing Exhibit 12 on May 11, 1957. I accept his statement that, although the order number on Exhibit 82 was the same as that on Exhibit 81, the partitions used on May 11, 1957, were not the same as those made on May 1, 1957, and that they were not Inman machine partitions. Mr. Sharpe said that there could be a style change without a change being made in the order number.

Moreover, it appears from the production records of the defendant's glue applicator No. 462, filed as Exhibit Z-14, that on some days partitions were being glued into cartons to supply orders other than Order 8342 A-41 as well as to supply it. If counsel's assumption were sound this would mean that the defendant was producing both Exhibit 12 cartons and Exhibit 13 cartons on the glue applicator on the same day. Mr. Vesak's evidence is against such a possibility.

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He pointed out that the glue patterns on the two cartons were different and that the glue applicator could not be used to produce Exhibit 13 and then produce Exhibit 12, or vice versa, without making a change in the gluing plates. If there had been any such change it would have been noted in the production records and there is no such note.

Finally, the fanciful nature of counsel's assumption is demonstrated by another fact. The production records for the defendant's glue applicator No. 462 for May 8, 9, 10, 13, 14, 15, 16, 21 and 22, 1957, all carry the same order number as the record for May 11, 1957, Exhibit 82 and show a total of 118,375 partitions glued into cartons produced to supply Order 8342 A-41. Consequently, if counsel's assumption were sound that the partitions glued into the 12,125 cartons produced on May 11, 1957, came out of the 20,300 Inman machine partitions that were piled in boxes on May 11, 1957, the same assumption would have to be made in respect of all the 118,375 partitions glued into cartons on the days mentioned, an assumption that would be patently absurd.

Infringement cannot be established by conjecture of this sort. There must be proof of it. In my opinion, there was no evidence that the defendant manufactured any Exhibit 12 type cartons after May 7, 1957. Indeed, the evidence is overwhelmingly to the contrary and I so find.

I am also of the opinion that there is no credible evidence that the defendant sold any Exhibit 12 type cartons after May 7, 1957. On the last day of the trial counsel for the plaintiff put in the following questions and answers from Mr. Gourlay's examination for discovery:

131. Q. Now, is that carton, Exhibit No. 2, the only carton being sold by the defendant company in the twelve-bottle size?
 A. Yes.
132. Q. Has it been the only carton you have been selling since May 7, 1956? Well, when I put that—other than the remaining run that there was of Exhibit 1?
 A. That is right.
133. Q. Which you sold off?
 A. Yes.

It was agreed that Exhibit 2 on the examination for discovery was the same as Exhibit 13 at the trial and that Exhibit 1 was the same as Exhibit 12. Counsel for the plaintiff relied on Mr. Gourlay's statement as an admission of the sale of Exhibit 12 type cartons after May 6, 1957.

It is significant that counsel thought so little of this evidence that he did not put it in during the plaintiff's case. But quite apart from that, it would not be proper to regard this as proof of sales after May 7, 1957. The statement should be considered together with the questions and answers from the examination for discovery put in by counsel for the defendant in the course of which, in response to counsel's question as to the date from which Exhibit 12 type cartons were sold, Mr. Gourlay said that they were sold from July 9, 1956, to May 3, 1957, and then corrected himself and said that he did not know the answer to counsel's question and could not answer it and that he was not sure of the date of the last sales of that particular carton. How then could it fairly be said that he admitted sales after May 7, 1957? In my opinion, he did not.

That being so it is not necessary to enquire whether the defendant was entitled to the benefit of section 58 of the *Patent Act* or the plaintiff's charge of fraud. But if it should be considered that Mr. Gourlay's statement was an admission of the sale of the remaining run of Exhibit 12 after May 7, 1957, there would be no reason why the defendant would not be entitled to the benefit of section 58 of the Act in respect of cartons produced before May 7, 1957, and sold afterwards. There is no evidence of any improper conduct on the part of the defendant in connection with Vesak's patent application or its prosecution. There was no proof that the application was filed for the purpose of delaying the issue of the plaintiff's patent and there was no evidence to warrant the charge of false representations levelled against the defendant. Indeed, counsel for the plaintiff failed to prove any act or conduct on the part of either the defendant or Joseph Vesak that would disentitle it to the relief that section 58 of the Act would have provided if the defendant had needed to rely on it.

The plaintiff has wholly failed in its charge that the defendant infringed any of the claims in suit by manufacturing or selling Exhibit 12 type cartons and to that extent its action must be dismissed. I should add that this issue unduly prolonged the trial. In my opinion, this could have been avoided if steps had been taken earlier for the production of documents relating to the manufacture and sale of Exhibit 12 type cartons after May 7, 1957, and examination for discovery thereon. Thus counsel for the defendant had

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good reason to complain of the lateness of the notification to him that infringement by Exhibit 12 would be made an issue. Consequently, the defendant will be entitled to the costs properly attributable to the undue extension of the time of the trial to which I have referred. I shall deal further with this matter later.

It is not as easy to determine whether the defendant has infringed the claims in suit by its manufacture and sale of Exhibit 13 type cartons. The answer to that question depends on the construction of the claims and whether Exhibit 13 comes within them. Before I construe the claims I should describe Exhibit 13. This will involve comparisons with Exhibit 4.

The wall structure of Exhibit 13 is similar to that of Exhibit 4. It has side and end walls and top and bottom closures consisting of top and bottom side and end flaps. It is all formed out of a single carton blank which is creased to form the side and end walls and the top and bottom side and end flaps. The carton blank is made of corrugated paper board instead of fibreboard as in the case of Exhibit 4. The top closure is only slightly different from that of Exhibit 4. Instead of having a recess cut back from the centre of each top side flap to enable the hand grip portion of the handle member to come through it when the handle member is pulled up to its operative position as in the case of Exhibit 4, the top side flaps are cut so that when they are folded down they do not quite meet thus leaving a slight gap between them for the whole length of the carton. It is through this gap that the hand grip portion of the handle member emerges above the top of the carton when the handle member is pulled up to its operative position. At the centre of each top side flap there is a finger drop like that in Exhibit 4. And, as in the case of Exhibit 4, the free end of the side wall portion of the carton blank at one end of it is equipped with a creased tab which is glued to the end wall portion at the other end when it is folded over at the manufacturer's gap. So far Exhibit 13 is very like Exhibit 4.

The interior assembly of Exhibit 13 is different from that of Exhibit 4. It has a movable handle member extending the full length of the carton. As in the case of Exhibit 4, this movable handle has a hand grip portion and a wall portion, the hand grip portion extending centrally above the wall

portion. In the evidence the sections of the wall portion on each side of the hand grip portion were referred to as the shoulders of the handle member. The wall portion differed from that in Exhibit 4 in that it had no slots in it. The rest of the interior assembly, other than the handle member, is formed out of one piece of material called liner paper, which has been folded along its centre to make, in a sense, two sides which extend downward in the carton and so disposed that they are in the centre of the carton. In the evidence this folded member was referred to as the envelope. A slot is cut in the centre of the fold, slightly longer than the length of the hand grip portion of the handle member, to permit the hand grip portion to come through it when the handle member, which is enclosed within the two sides of the envelope, is pulled up to its operative position. In the evidence the portions of the top of the envelope on each side of the central slot were called its shoulders. At each end of the envelope there are two tabs which are glued to the end wall adjacent to it, the first from near the top of one side of the envelope being glued to the portion of the end wall between such side and the side wall of the carton and the second from the bottom portion of the other side of the envelope being glued to the same portion of the end wall as the first and immediately below it. In this manner the envelope is maintained in its central position for the length of the carton and is fixed at its ends to the end walls of the carton.

There are no separate lateral partitions in Exhibit 13 such as those in Exhibit 4. Instead, slits are cut in each side of the envelope to form five wings extending outwardly from it. These are bent at their ends to form tabs which are glued to the adjacent side wall of the carton. The tab at the end of the wing farthest to the left is wider than the others. The slits are cut so that the wings do not extend all the way down to the bottom of the carton or all the way up to the top. There is a strip below the wings and connected to the end tabs, which is also glued to the adjacent side wall of the carton. Thus the interior assembly of Exhibit 13 is fixed to the wall structure of the carton at more areas of attachment than in the case of Exhibit 4, namely, by the tabs of the five wings and the strip below them to each side wall and by the two tabs of the ends of the sides of the envelope to each end wall.

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As in the case of Exhibit 4, Exhibit 13 is sold to the breweries in a knock-down form, the handle member having been inserted between the two sides of the envelope and the rest of the assembly disposed on the carton blank so that the various tabs and strips meet their appropriate glued areas and will be bonded to them when the blank is folded and the whole is run through the pressing machine. When Exhibit 13 is opened up to its rectangular box form it will be seen that the wings formed from each side of the envelope extend from it to the adjacent side wall of the carton at right angles to the side of the envelope on the one hand and the side wall of the carton to which the end tab of the wings and the strip below them are glued on the other.

When the handle member is in its lower or retracted position the top of its hand grip portion is even with the top of the envelope and the wall portion goes down to the bottom of the carton. In this position it separates the two rows of bottles from each other and is thus a longitudinal divider or partition. The wings, which do not go all the way to the bottom of the carton or extend all the way to the top of the side of the envelope from which they extend, separate the bottles in the row from one another and are thus lateral dividers or partitions. The wings on one side of the envelope have corresponding wings on the other side. In the manner described the handle member and the rest of the assembly form cells for the bottles or other articles to be carried so that, in the words of Claim 1, they define article receiving compartments. The portions of the sides of the envelope above the wings also help to keep the rows of bottles separate from each other.

When the handle member is pulled up by the hand grip portion to enable the customer to carry the carton and its contents it moves upward from its lower or retracted position, in which it is all below the top closure of the carton, to its upper or operative position, in which the hand grip portion emerges through the slot cut in the centre of the fold of the envelope and projects above the top closure. When the handle member is in this operative position its shoulders engage the under sides of the shoulders of the envelope so that the handle member cannot go up any further. It is this co-operation with the handle member by the rest of the interior assembly that limits the movement

of the handle member outward of the wall structure of the carton or, in other words, prevents it from coming out of the box.

In this description of Exhibit 13 I have used the word envelope because that term was used by the witnesses. Strictly speaking, as will appear later, the term is not correct. It would have been better to use the term "so-called envelope".

I now proceed to the construction of the claims in suit. This must be done in order to ascertain what the invention defined by them is. Since a patent specification, which includes the claims, is addressed to persons skilled in the art to which the invention relates, the claims should be read in the light of the common knowledge which such persons are assumed to have. Consequently, if the Court is to construe the claims properly it must, as far as possible, be put in the same position as such persons would be. Ordinarily, this purpose is sought to be accomplished with the aid of expert evidence on such matters as the state of the art at the date of the patent, the meaning of technical terms and terms of art and the working of the invention. But there are cases in which the claims are expressed in such plain and common language that the Court can construe them and ascertain the invention defined by them without any aid beyond the language used in formulating them.

In my opinion, Claim 1 is a claim of this nature. Thus its construction is free from difficulty. It defines an invention of a carton comprising specified elements that function in a specified manner to accomplish a specified purpose. The carton is enclosed and is of the type that has a wall structure comprising side and end walls and a bottom. It includes a top closure and mutually transverse partition members defining article receiving compartments in the carton. It is clear that at least two partition members are contemplated. These have the characteristic of being mutually transverse and they perform the function of defining article receiving compartments in the carton. The claim does not specify the shape of the carton or the arrangement or number of the compartments. So long as there is one partition member that is transverse to another partition member, or to other partition members, and the partition members define article receiving compartments in the carton the requirements of the claim are met, so that a 2×2 carton or a 2×3 carton or

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a 2×6 carton would each be within the claim if otherwise qualified. If one partition member is styled the longitudinal partition because it runs lengthwise of the carton the other partition member, or partition members, being at right angles and also transverse to the longitudinal partition may be styled the lateral partition, or the lateral partitions. Since it is specified that the mutually transverse partition members perform the function of defining article receiving compartments in the carton or, in other words, forming cells for the reception of bottles or other articles it follows in the case of a carton for twelve bottles that the longitudinal partition separates the rows of six bottles from each other, in which case it serves as a longitudinal divider, and the lateral partitions separate the bottles in the row from one another, in which case they serve as transverse or lateral dividers. One of the mutually transverse partition members is described as "such selected partition member" but what is plainly meant is "a selected one of such mutually transverse partition members". This selected partition member has two characteristics, namely, it includes a handle portion and it is movable between two defined positions, the first being a retracted one in which the handle portion lies beneath the top closure of the carton and the second an operative one in which the handle portion projects above the top closure. The use of the term "operative" implies that when the selected partition member is moved from its retracted position, which is its lower one, to its operative position, which is its higher one, it will have an operative effect, namely, that it will operate so that the carton can be lifted by the handle portion of the selected partition member if the other specifications in the claim are complied with. The claim next refers to "at least one other of such partition members." This means at least one of the mutually transverse partition members; that is, other than the selected partition member. This other partition member has a specified relationship to the wall structure of the carton and performs a specified function. It is fixed to the wall structure of the carton, which has been defined earlier in the claim as comprising side and end walls and a bottom, so that it may be fixed to any one of these portions of the wall structure. The partition member thus fixed to the wall structure may be described as the fixed partition member to distinguish it

from the selected member which is movable. This fixed partition member has a specified function namely, that it co-operates with the selected partition member, the handle member, to limit its movement outward of the wall structure or, in other words, to prevent it from coming out of the carton when it is lifted up to be carried. It is clear that the limitation of movement referred to is accomplished solely by the specified co-operation. As I see the claim it defines a combination in which there are specified elements so arranged as to form cells for receiving the bottles or other articles to be carried and co-operating in a specified manner to accomplish a specified purpose thus producing a simple and unitary result, namely, a carton equipped with a movable handle by which it can be carried without the handle coming out of it. Thus the invention defined in the claim has the unitary result that is necessary to distinguish a combination from an aggregation of elements.

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I now come to the question whether Exhibit 13 is within Claim 1. Since there is no doubt that Exhibit 4 embodies the invention defined in the claim it will be convenient to compare Exhibit 13 with it. It is manifest, of course, that Exhibit 13 is an improvement over Exhibit 4 but that does not eliminate the possibility that it is an infringement. It is established law that an improvement may be an infringement: *vide* the general statement to that effect of Lindley L. J. in *The Wenham Gas Company, Ltd. v. The Champion Gas Lamp Company*¹ and the particular one of Bowen L.J., at page 56:

if the pith and marrow of the invention is taken it is no excuse to say that you have added something, or omitted something, even if the addition or omission be useful and valuable. The superadding of ingenuity to a robbery does not make the operation justifiable.

Thus the fact that Exhibit 13 is a stronger carton than Exhibit 4 and has advantages over it does not free the defendant from liability for infringement if Exhibit 13, apart from its superiority over Exhibit 4, comes within the claim: *Vide Riddell v. Patrick Harrison & Co. Ltd.*² And this would be so even if Exhibit 13 were a patentable improvement: *vide Lightning Fastener Co., Ltd. v. Colonial Co. Ltd. et al.*³

¹ (1892) 9 R.P.C. 49 at 55.

² (1957-58) 17 Fox P.C. 83 at 108.

³ [1932] Ex. C.R. 89 at 100.

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Nor does the fact that there are differences between Exhibit 13 and Exhibit 4 determine the matter. The question is whether the terms of the claim are met in Exhibit 13, notwithstanding such differences.

Exhibit 13 is an enclosed carton of the type that has a wall structure comprising side and end walls and a bottom and it includes a top closure. Thus far, it is within the terms of the claim. The next question is whether it includes mutually transverse partition members defining article receiving compartments in the carton. There was no dispute that Exhibit 4 includes such members and that they perform the function specified but it was strongly denied by counsel for the defendant that these requirements of the claim are met in Exhibit 13. Here it seems to me essential to ascertain the meanings of the word "transverse" and the term "mutually transverse". The Shorter Oxford English Dictionary defines "transverse", when used as an adjective, as follows:

1. Lying across; situated or lying crosswise or athwart; *esp.* situated or extending across the length of something, *spec.* at right angles 1621.

The same dictionary defines "across", when used as an adverb, as follows:

1. In the form of a cross, crosswise, crossing 1480. 2. Crossing the length-line, transversely; through 1523

and "athwart", when used as an adverb, as follows:

1. Across from side to side, transversely; usu. in an oblique direction 1611. *Naut.* from side to side of a ship 1762. 2. Across the course (of any thing) 1594;

The word "mutually" is the adverb of the adjective "mutual" which the same dictionary defines as follows:

1. Of relations, feelings, actions: Possessed, entertained, or done by each other towards or with regard to the other; reciprocal.

Thus one partition member cannot be transverse to another merely by being at right angles to it. It must lie across or be situated or lie crosswise of or athwart it or be situated or extend across its length. And two partition members cannot be mutually transverse unless each lies across the other or is situated or lies crosswise of or athwart it or is situated or extends across its length. The relationship between the two partition members must be a reciprocal one. Put simply, they must cross one another. In Exhibit 4 there is a longi-

tudinal partition member, namely, the handle member, consisting of the hand grip portion and the wall portion, running lengthwise of the carton and five lateral partition members extending from one side wall of the carton to the other. The longitudinal partition member extends across the length of each of the lateral partition members at its centre and is thus transverse to each of them. And each lateral partition member extends across the length of the longitudinal partition member by passing through the appropriate slot in its wall portion and is thus transverse to it. Thus there are mutually transverse partition members in Exhibit 4. It is clear that the longitudinal partition member, the handle member, separates the rows of six bottles from each other and that the lateral partition members separate the bottles in the row from one another so that in their totality these mutually transverse partition members define article receiving compartments in the carton.

But, as pointed out in the description of Exhibit 13, its interior assembly is different from that of Exhibit 4. It has only two members in it, instead of six as in Exhibit 4, namely, the handle member and the rest of the interior assembly consisting of a single piece of material disposed as described. It will, therefore, be convenient to refer to the two members respectively as the handle member and the other member.

Counsel for the defendant, taking a different position in the argument from that taken in his opening, conceded that the handle member is a partition member. This was proper for it is clearly so. When it is in its lower or retracted position it goes all the way down to the bottom of the carton and separates the rows of bottles from each other thus performing its appropriate part in the function of defining article receiving compartments in the carton. Since it runs the length of the carton it may, like the handle member in Exhibit 4, be called the longitudinal partition member.

The determination of the nature and function of the other member of Exhibit 13 is not as easy. In the course of the trial this other member was frequently referred to as the envelope and the wings extending outwardly from it were called the transverse dividers by the witnesses for the plaintiff and the lateral partitions by counsel for the defendant. With a view to proving that there are partition members in Exhibit 13 that are transverse to the handle

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member partition Mr. Macdonald and Mr. Treloar asserted that the so-called envelope is an integral part of the transverse dividers. There were variations in this central theme, all sounding to the same effect. Counsel for the plaintiff contended, in effect, that there are transverse partitions in Exhibit 13 extending from one side wall of the carton to the other, consisting of the wings on one side of the envelope, their corresponding ones on the other side, the end tabs of each and the envelope connecting the pairs of wings. Counsel for the defendant disputed this contention. For reasons that will appear I need not further elaborate the respective contentions of counsel on this point.

In my opinion, it makes for confusion to refer to the member other than the handle member as if it consists of several members, namely, the so-called envelope, the so-called lateral partitions and the tabs attaching them to the side walls. There is only one other member in Exhibit 13. Thus the inquiry is whether it and the handle member constitute mutually transverse partition members defining article receiving compartments within the meaning of claim 1. This raises several questions which I enumerate. Firstly, is this other member a partition member? Secondly, if it is, is it transverse to the longitudinal partition member, the handle member? Thirdly, if it is, are the two partition members mutually transverse partition members? And, fourthly, if they are, do they define article receiving compartments in the carton? I shall deal with these questions in their stated order. But before I do so I should refer to the description of this other member in order to ascertain its true nature and function. In this connection it will be helpful to look at the interior assembly of Exhibit 13, which was filed separately as Exhibit 14. This includes the handle member but, at the moment, I am not concerned with it but only with the rest of the interior assembly. When it is spread out the fact that it consists of a single undivided sheet of liner paper stands out. It will be seen that a slot has been cut in the centre of the sheet to allow the hand grip portion of the handle member to emerge through it when the handle member is lifted to its operative position and that the rest of the centre line on each side of the slot has been creased to enable the sheet to be folded at the crease to form two sides constituting the so-called envelope. It will also be seen that slits have been cut in each of the sides to form five

wings, that each wing has a bent end tab to be glued to the adjacent side wall of the carton, that there is a strip below the wings and connecting the end tabs also to be glued to the side wall, and that there are tabs at the end of each side of the so-called envelope that are to be glued to the adjacent end wall in the manner described. If Exhibit 13 is now looked at and opened up from its knock down form to its rectangular box one and the bottom end and side flaps folded it will be seen that the wings cut from each side of the so-called envelope extend outwardly from it to the side wall of the carton and form lateral partitions at right angles to it and the side wall and that these will enable the bottles in each row to be separated from one another. Thus, it will be seen that this other member has been so disposed as to form partitions that perform their appropriate part in the function of defining article receiving compartments in the carton. That being so, the first question must be answered in the affirmative. The fact that it is so disposed as to make five partitions on each side of the so-called envelope instead of one does not deprive it of its character as a partition member. It is a five-in-one, or ten-in-one, partition member.

It was, therefore, erroneous to speak of the so-called transverse dividers, defined as counsel for the plaintiff defined them, or the so-called lateral partitions, to use the description given by counsel for the defendant, as if such transverse dividers or lateral partitions were partition members. They are not and this fact cannot be too strongly stated. There are only two partition members in Exhibit 13. The handle member is one of them and the rest of the interior assembly, other than the handle member, is the other.

The second question, namely, whether this other partition member is transverse to the handle member partition member is not as difficult to answer as at first appears. Counsel for the defendant suggested that it was odd to think of this other partition member as being transverse to the handle member, since its two sides run in the same direction as the handle member for the length of the carton and the handle member is contained within them and since the upper portions of the sides of the so-called envelope and the lower portions that go almost to the bottom of the carton at their ends assist in separating the rows of bottles from

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each other and to that extent perform the function of longitudinal as opposed to lateral division. How then, under these circumstances, could it properly be said that the other member is transverse to the handle member? Indeed, I must confess that I was impressed with counsel's suggestion and expressed the opinion during the trial and the argument that counsel for the plaintiff had a difficult task to face. Since then I have read the transcript of the evidence and argument and examined the relevant exhibits and have come to the conclusion that the answer to the question, far from being difficult, is clear. In Exhibit 13 the other partition member is folded over the handle member at the central line of the sheet composing it so that its sides drop downward but the folds on the sides of the central slot are immediately over the shoulders of the handle member and across and athwart it. In this connection, I again find help in Exhibit 14. If the handle member were held vertically and the other partition member, that is to say, the rest of the interior assembly other than the handle member, spread out it would be plainly seen that the whole of the other member would lie across the handle member and be situated athwart it and extend across its length and thus be transverse to it. It does not cease to be so by reason of the fact that when it is folded at the central crease line over the handle member its two sides extend downward, one on each side of the handle member. It still lies across the handle member so that it is athwart it and extends across its whole length. Thus I answer the second question in the affirmative and find that this other partition member in Exhibit 13 is transverse to the handle member. And this finding is not affected by the fact that the so-called envelope lies the length of the carton and that portions of it assist in separating the rows of bottles from each other and to that extent perform the function of longitudinal division in addition to the function of lateral division performed in the manner already described.

The answers to the first and second questions make the answers to the third and fourth ones comparatively easy. As the other partition member is transverse to the handle member so the handle member is transverse to it. The relationship between the two partition members is a reciprocal one. Each crosses the other, which means of course that one is above and the other below. At its shoulders the handle

member is below the other member but extends across its length and is transverse to it. Thus the handle partition member and the other partition member are mutually transverse partition members within the meaning of the claim. And it is manifest that in their totality they define article receiving compartments in the carton.

I now come to the requirements of the claim relating to the mutually transverse partition members. There is no dispute that the handle partition member meets all the requirements. It is the selected partition member within the meaning of the claim and has the specified characteristic and is capable of the specified function. It includes a handle portion, like the hand grip portion of the handle member in Exhibit 4, and is movable between the two positions referred to in the claim, namely, a first retracted or lower one, in which the handle portion lies beneath the top closure, and a second operative or upper one, in which the handle portion projects above the top closure.

The final specification of the claim is that in the enclosed carton defined by it at least "one other of such partition members" is fixed to the wall structure and co-operates with the selected partition member to limit its movement outward of the wall structure. The term "such partition members" must mean the mutually transverse partition members previously referred to in the claim and the term "one other of such partition members" must mean a partition member that is one of "such partition members" and is other than the selected partition member, that is to say, other than the handle member partition member. In my opinion, the partition member in Exhibit 13 other than the handle member partition member is clearly within the meaning of the term "one other of such partition members" and the enquiry now narrows down to two remaining questions, the first being whether it is fixed to the wall structure and the second whether it co-operates with the selected partition member, the handle member, to limit its movement outward of the wall structure. There cannot be any doubt that the first of these questions must be answered in the affirmative. The term "wall structure" has been defined earlier in the claim as comprising side and end walls and a bottom and it is not specified that the partition member referred to is to be fixed to any particular portion of the wall structure so that if it is fixed to the side or end walls or to the

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bottom this specification of the claim is met. In Exhibit 13 the partition member referred to is fixed to the wall structure of the carton at five areas of attachment on each side wall and at two on each end wall and, in addition, the strip below the wings and connecting the tabs at their ends is attached to its appropriate side wall. Thus, it is fixed to the wall structure at sixteen areas of attachment. It may, therefore, be appropriately called the fixed partition member as distinguished from the selected partition member, the handle member, which is movable.

The remaining question, namely, whether the fixed partition member co-operates with the selected partition member, the handle member, to limit its movement outward of the wall structure is the one around which the main controversy in this case turned. The claim does not specify how this co-operation is to be effected. All that is specified is that it accomplishes the specified purpose. There is no doubt that in Exhibit 4 the lateral partitions, being the partition members that are fixed to the wall structure, do co-operate with the selected partition member, the handle member, to accomplish the required result. The co-operation occurs when the handle member has been moved from its retracted to its operative position, at which time the lower edges of the slots in the wall portion of the handle member engage the under edges of the lateral partition at their centres so that they, being fixed to the wall structure, prevent the handle member from moving up any further. It is in this manner that the fixed partition members co-operate with the selected partition member, the handle member, to limit its movement outward of the wall structure of the carton and it is clear that the specified result is accomplished wholly by this co-operation. Here I might add, although strictly speaking, it is not necessary, that it is at the points of co-operation mentioned that the load imposed by the bottles on the bottom of the carton is transferred, via the side walls and the lateral partition, to the handle member and by it to the arm of the carrier of the carton. Or, to put it otherwise, it is at these points that the lateral partitions co-operate with the handle member by resisting the force exerted on the load when the handle member is lifted to its operative position and the carton is carried and so preventing the handle member from coming out of the carton.

It was argued by counsel for the defendant that in Exhibit 13 the lateral partitions extending out from the sides of the so-called envelope do not co-operate with the handle member at all and that what co-operates with it is something that is connected to the lateral partitions and to the ends of the cartons. This argument falls to the ground, as counsel concedes it must, if the whole of the interior assembly other than the handle member is a partition member transverse to the handle member as I have found it to be. Consequently, in Exhibit 13 the required co-operation of the fixed partition member, being the whole of the assembly other than the handle member, with the selected partition member, the handle member, does take place and it accomplishes the specified purpose. When the handle is lifted from its lower to its upper position, which is its operative one, its shoulders engage the under sides of the shoulders of the so-called envelope or, to put it more nearly precisely, the under sides of the portions of the fixed partition member that lie immediately above and across the shoulders of the handle member, and so prevent the handle member from moving up any further. It is in this manner that the fixed partition member in Exhibit 13 co-operates with the selected partition member, the handle member, to limit its movement outward of the wall structure of the carton and the specified limitation is accomplished wholly by this co-operation. And here too I may add, with the same qualifications as previously, that it is at the points of co-operation mentioned that the load imposed by the bottles on the bottom of the carton is transferred, via the side and end walls and the fixed partition member, to the handle member and by it to the arm of the carrier of the carton. And, it is at these points that the fixed partition member co-operates with the handle member by resisting the force exerted on the load when the handle member is lifted to its operative position and the carton is carried and so preventing the handle member from coming out of the carton. Thus the co-operation of the fixed partition member in Exhibit 13 with the selected partition member, the handle member, is of the same kind as the co-operation of the fixed lateral partition members in Exhibit 4 with its handle member and the specified limitation is effected in each case.

In view of my finding that there are only two partition members in Exhibit 13, namely, the fixed partition member

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and the selected partition member, the handle member, and there is no doubt that the specified limitation of the outward movement of the handle member is accomplished it is clear that the specified limitation is accomplished solely and exclusively by the co-operation of the fixed partition member with the selected partition member, the handle member. There is nothing else in the carton that can contribute to the specified limitation of movement.

Consequently, I find that all the elements specified in Claim 1 are present in Exhibit 13 and function as specified to accomplish the unitary result contemplated by it. In my judgment, Exhibit 13 is within the terms of Claim 1. I, therefore, find that the defendant has infringed the plaintiff's rights under it.

In view of this conclusion a good deal of the evidence adduced in this case turns out to be irrelevant and need not be considered. In this connection it would be fair to state that it is much easier to determine its irrelevancy after the case has been fully argued than it would have been during the course of the trial when its outcome had not become clear. Under the circumstances, no useful purpose would be served in dealing with such matters as the manner in which the weight of the bottles in Exhibit 13 is carried or transferred to the handle member when the carton is lifted or how much of the load imposed by the bottles on the bottom of the carton is carried by the so-called lateral partitions and the side walls to which they are attached as compared with that carried by the so-called envelope and the end walls to which it is attached, or the manner in which the force exerted on the load in order to lift the carton is distributed in it. And I need not consider Mr. Treloar's evidence that the so-called envelope acts as a beam or deal with the matter of where stress is created when force is exerted on the load to lift the carton or what the nature of such stress is. Nor need I be concerned with the evidence given by Mr. Treloar as to the tests made by Sommerville Limited or the two-day evidence given by Mr. Barber relating to the tests of Exhibit 13 made by him during the course of the trial.

I must next consider whether Exhibit 13 infringes the other claims in suit in respect of it, namely, Claims 4, 5, 6 and 7. Here I should point out that each of them is two claims in the alternative, either as including Claim 1

or as including Claim 2. And since it is not alleged that Exhibit 13 infringes Claim 2 I need not consider it in this connection and, for a similar reason, I shall not consider whether Exhibit 13 infringes any of the other claims in suit to the extent that it includes Claim 2.

In my opinion, Exhibit 13 infringes Claim 4 to the extent that it includes Claim 1. The limitation in it relates to the means for locating the selected partition member, the handle member, in relation to one other of the partition members. It is not specified what the means should be. In Exhibit 4 it is the V-shaped or Y-shaped notch in the centre of the lateral partitions. There is, of course, no such notch in Exhibit 13 but the so-called envelope serves the same purpose. It is the means whereby the selected partition member, the handle member, is located in its relation to the other partition member in the carton, namely, the rest of the interior assembly other than the handle member.

And there is no doubt that Exhibit 13 infringes Claim 5 to the extent that it includes Claim 1, for the selected partition member referred to in the claim, namely, the handle member, has a hand grip portion that extends to the height of the wall structure when the handle member is in its first retracted or lower position.

Likewise, Claim 6 to the extent that it includes Claim 1 is clearly infringed by Exhibit 13 for a glued tape is used in it to seal the top.

Claim 7 to the extent that it includes Claim 1 presents a slight difficulty. It really includes Claims 5 and 6 but there is a further limitation relating to the recess in the centre of each of the top side flaps, to which I referred in my description of Exhibit 4. In Exhibit 13 there is no such recess but the same purpose is served by cutting the top side flaps so that they will not quite meet. In my judgment, the difference is so slight that it ought not to free the defendant from the charge that Exhibit 13 infringes the claim.

Thus I find that Exhibit 13 infringes Claim 1 and also infringes Claims 4, 5, 6 and 7 to the extent that each includes Claim 1.

I now turn to the defendant's counterclaim for a declaration that the patent in suit is invalid. It was attacked on several grounds, namely, lack of invention over the prior art, lack of novelty in that there were prior uses of the invention, ambiguity and avoidable obscurity in the claims and lack of utility.

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In each case the onus of proof of invalidity lies on the defendant. This follows of necessity from section 48 of the *Patent Act*, R.S.C. 1952, Chapter 203, which provides as follows:

48. Every patent granted under this Act shall be issued under the signature of the Commissioner and the seal of the Patent Office; the patent shall bear on its face the date on which it is granted and issued and it shall thereafter be *prima facie* valid and avail the grantee and his legal representative for the term mentioned therein

The effect of the section, formerly section 47 of *The Patent Act*, 1935, Statutes of Canada, 1935, Chapter 32, was first considered in *The King v. Uhlemann Optical Company*¹. There I said, at page 161:

There is a presumption of validity in favor of the patent by reason of its issue and the onus of proving that it is invalid for lack of invention is on the person attacking it The onus is not an easy one to discharge.

The matter has also been dealt with in *O'Cedar of Canada Ltd. v. Mallory Hardware Products Ltd.*², *Riddell v. Patrick Harrison & Co. Ltd.*³, and *Reliable Plastics v. Louis Marx*⁴ and I need not repeat the statements in these decisions. I add only the comment that the statutory presumption is not confined to the attribute of inventiveness but extends to the other attributes that an invention must have if it is to be patentable under the Act, such as novelty and utility. The three attributes of patentability, namely, novelty, utility and inventiveness are all presumed to be present in an invention for which a patent has been granted under the Act until the contrary is clearly shown.

Thus the plaintiff starts with the statutory presumption of validity of its patent in its favor and the onus is on the defendant to rebut it. In my opinion, it has failed to do so.

There is no support for the contention that the invention covered by the patent in suit lacks utility. Indeed, counsel for the defendant, although he mentioned this ground of attack in his opening, did not argue it. And properly so, for, as I have already found, there can be no doubt about its utility. Exhibit 4, which embodies the invention, had many advantages over the beer cartons previously in use and enjoyed a substantial market in the Vancouver area. Indeed, it had all the dozen bottle carton business in that area until

¹ [1950] Ex. C.R. 142.

² [1956] Ex. C.R. 299 at 316.

³ (1957-58) 17 Fox P.C. 83 at 99.

⁴ (1958) 29 C.P.R. 113 at 127.

the defendant entered the field first with Exhibit 12 and then with Exhibit 13.

In the particulars of objection it was alleged that the plaintiff's alleged invention was not new but was described, more than two years before the filing of the patent application, in the specifications of prior patents and four patents were filed as exhibits. But counsel for the defendant relied only on a United States Patent No. 2,652,968 issued on September 2, 1952, in respect of an invention of a carton by P. A. Toensmeier. It was designed for beer cans. Although it was pleaded as an anticipation of the plaintiff's invention the Toensmeier patent was not put forward as such. It was relied upon only in the event that it should be held that Claim 1 extends to Exhibit 13 and it was submitted that in such event Claim 1 extends to a carton that is only a workshop improvement on Toensmeier and thus includes something that does not involve invention and is, consequently, not patentable from which it follows that the claim is invalid as extending to a carton that does not involve invention. I should state that this argument is based on an assumption to which I shall refer later but I must say that even on that basis I do not agree with it. I am unable to understand how the fact that Exhibit 13 falls within Claim 1 can make it extend to a carton that is only a workshop improvement over the Toensmeier carton unless it is assumed that Exhibit 13 is only a workshop improvement over the Toensmeier carton. Such an assumption should be dismissed out of hand. The elements and characteristics that feature Exhibit 13 and bring it within Claim 1 are absent in the Toensmeier carton. It has no top closure, there are no mutually transverse partition members in it to define article receiving compartments, as in Exhibit 13, and, while it has a handle member, the limitation of its movement outward of the wall structure of the carton is not effected by co-operation such as that which is present in Exhibit 13. And I reject the submission that the Toensmeier carton is, in effect, Exhibit 13 without the transverse dividers. In my judgment, the Toensmeier carton has no bearing on the issues in this case.

The remaining attacks on the validity of the patent, namely, that there were prior uses of the invention covered by it and that the claims in suit were ambiguous and avoidably obscure, were based on a somewhat involved assump-

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tion. In his opening counsel for the defendant referred to two alleged prior uses of the invention, one by Mr. Sharpe in 1935 and the other by Mr. Vesak late in 1952 or before March of 1953. He admitted that these were not prior uses of the invention exactly as described and illustrated in the patent in suit and stated that the defendant took the position that if the claims were read as extending to Exhibit 13 so as to make it an infringement of them they must also cover the structures designed by Mr. Sharpe and Mr. Vesak and that, if they did so, a reader of the claims could not know whether a particular structure was within the claims or not in which case they are ambiguous and avoidably obscure. Thus, in a sense, counsel combined the two attacks referred to. Counsel explained that his submission was based on the assumption that the Court might construe Claim 1, for example, as extending to any carton in which there are mutually transverse partitions and in which the limitation of movement of the handle member outward of the wall structure is accomplished otherwise than solely by the co-operation of a fixed partition member with the handle member, that is to say, by some means other than the co-operation specified in Claim 1 or by the combined co-operation of the fixed partition member and something else with the handle member. It was only on that assumption that the attacks were made. Here I might add that there were no attacks on the validity of the limitations in Claims 4, 5, 6 and 7 to which I have referred.

In view of my reasons for finding that Exhibit 13 is an infringement of Claim 1 there is no warrant for the assumption on which counsel for the defendant based this attack. I did not construe Claim 1 as counsel assumed that I might do. I have found that Exhibit 13 is within the express terms of the claim in that it contains all the elements specified in it and that they function in the manner specified therein. With reference to the matter on which the assumption was particularly based I have found that in Exhibit 13 the limitation of the movement of the handle member outward of the wall structure of the carton is accomplished solely by the co-operation of the partition member which is fixed to the wall structure, namely, the whole of the interior assembly other than the handle member, with the selected partition member, the handle member, and not by any other means or by such co-operation and anything else.

I agree that Claim 1 might extend to a carton other than Exhibit 13 but that does not make it ambiguous or avoidably obscure. Whether it would so extend would depend on whether the particular carton has the elements specified in the claim and whether they function in the specified manner. The fact that the ambit of the claim is broad does not invalidate it if its terms are clear.

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There being thus no warrant for the assumption on which the charge of ambiguity and avoidable obscurity was based this attack on the validity of the claims in suit fails.

In view of counsel's statement that the two prior uses of the invention referred to by him were not prior uses of exactly the invention described and illustrated in the patent in suit it follows of necessity that the attack based on lack of novelty by reason of prior use fails.

But because of the length of time taken at the trial in dealing with the alleged prior uses it will not be amiss if I refer to them. Only a brief reference is necessary.

It seems clear that if a patent is to be invalidated on the ground that the invention for which it was granted lacks novelty by reason of the fact that there has been a prior use of it the party attacking the patent on that ground must show that the alleged prior use was a use of the invention described and claimed in it. It is also clear that the principles stated in the cases determining the requirements that a prior patent or other publication must meet before it can be considered as anticipatory of an invention apply with equal force in the case of an alleged anticipation by prior use.

Moreover, the cases indicate that evidence purporting to show that the invention was anticipated by a prior use of it "should be subjected to the closest scrutiny": *vide* the statement of Rinfret J., as he then was, delivering the judgment of the Supreme Court of Canada in *Christiani & Nielsen v. Rice*¹, affirmed by the Judicial Committee of the Privy Council²; *vide* also *Campbell Mfg. Co. v. Thornhill Ind.*³ and *Radio Corp. v. Raytheon Mfg. Co.*⁴ In the last mentioned case I stated that the onus of proof of a prior invention is a very heavy one.

¹ [1930] S.C.R. 443 at 452.

² [1931] A.C. 770.

³ (1952-53) 13 Fox P.C. 198 at 207.

⁴ (1957) 27 C.P.R. 1 at 37.

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With these considerations in mind I refer to the evidence relating to the cartons devised by Mr. Sharpe and Mr. Vesak on which counsel for the defendant relied. Mr. Sharpe's evidence relating to the so-called prior use attributed to him may be summarized. He came up with a 2×6 upright carton prior to 1938. He thought that it was in 1933. It had five cross partitions of corrugated paper, the two end partitions being U-shaped. These were slotted in the centre from the bottom up to a point past the middle. Down the centre of the carton there was a partition which formed a handle section. It was slotted at its shoulders from the top down so that it could slide up in the slots of the two end partitions. The other three partitions crossed the central one through slots in it from the bottom up. The end partitions were the full height of the carton and so was the handle section. The other three cross partitions were about half that height. When Mr. Sharpe had made up the carton he took it in to the office of his superior, Mr. Walsh, to await his return from Seattle. Then he held a conference with Mr. Walsh and Mr. Forster, another associate, with a view to having the carton taken to one of the breweries for sale and it was agreed that Mr. Forster should show it to a Mr. Hobday, the purchasing agent of the Vancouver Brewery. When Mr. Sharpe took the carton to Mr. Walsh's office the partitions were loose and it was decided that it would be better to fasten the end ones. Mr. Sharpe used some brass desk pins for the purpose. This was done so that Mr. Forster could carry the carton by its handle and be able to remove the pins and show the partitions to the purchasing agent. He also thought that the partitions could have been secured by stitching. There were four pins on each side of the carton for securing the flanges of the end partitions, two for each flange. Mr. Forster took the carton to Mr. Hobday but nothing came of it. Mr. Sharpe drew a sketch of his carton, which was filed as Exhibit Z-2, and on his cross-examination a small model based on this sketch was filed as Exhibit 72. Mr. Sharpe also drew other sketches to portray his carton in one of which, filed as Exhibit Z-5, the shoulders of the handle section of his carton were different from those shown in Exhibit Z-2. When this difference was pointed out to him on his cross-examination he explained that it was due to inaccuracy of draughtsmanship, an explanation that I consider reasonable. But on his cross-

examination he admitted that he had made a sample carton for Mr. Gourlay when he was preparing for his examination for discovery. This purported to portray what he had come up with. This was filed as Exhibit 71. The construction of this carton is different from that shown in the sketch, Exhibit Z-2, and the model, Exhibit 72. The U-shaped partitions do not extend up to the height of the carton as in the sketch, Exhibit Z-2, and the model, Exhibit 71, and the functioning of the two cartons is not the same. On his cross-examination, Mr. Sharpe also admitted that he had previously given 1935 as the date of his device. Thus it appears that he gave three different dates for his device, drew sketches showing differences in the shoulders of the handle section of the cartons and described different cartons. In addition, there were no samples of his device, no drawings of it and no records showing it. Thus, Mr. Sharpe's evidence is not of the kind that should be allowed to invalidate a patent that is presumed to be valid. When counsel for the defendant was pressed to state which carton he relied upon, whether the one described by Mr. Sharpe or the one prepared for Mr. Gourlay's cross-examination, he indicated the former and I accept it for what it is worth. A carton having the assembly depicted in the sketch, Exhibit Z-2, and illustrated in the model, Exhibit 72, could, according to Mr. Sharpe, be carried when it was closed by reason of the fact that the U-shaped partitions extended up to the full height of the carton with the result that they would be held in place by the top of the carton or, to put it otherwise, that when the handle section was raised its shoulders would bear on the under side of the top of the carton. It was this arrangement that enabled the load imposed by the bottles on the bottom of the carton to be carried and prevented the handle from coming out of the carton. It is clear that this method of limiting the movement of the handle outward of the wall structure of the carton is a very different one from that specified in Claim 1 of the patent in suit. Thus the carton devised by Mr. Sharpe, assuming it to be the one described by him, was not a prior use of the invention described and claimed in the patent in suit. That being so, I need not consider the evidence of Mr. Hobday, to whom Mr. Sharpe's carton was disclosed, beyond saying that he had no precise recollection of what he had seen when Mr. Forster showed the carton to him.

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The evidence relating to the prior use attributed to Mr. Vesak may be dealt with briefly although it took up several days. It was alleged that he devised the carton relied upon as a prior use of the plaintiff's invention late in 1952 or before March of 1953. There is conflicting evidence on the question of date but, for the present purposes, I accept Mr. Vesak's evidence on this point. It is also established that Mr. Vesak was working on beer carton designs and came up with several of them but was discouraged in his efforts by Mr. Sharpe who wished him to work on 3 × 4 cartons. Finally, however, Mr. Vesak came up with a carton that had glued-in lateral dividers and a movable handle. Mr. Sharpe considered that this involved a good idea but was not practical. There is conflicting evidence on the details of this carton but I am prepared to accept, for the present purposes, the fact that a sample carton, filed as Exhibit Z-34, exemplifies the carton that Mr. Vesak devised and on which counsel for the defendant relied. I need not describe in detail how its interior assembly was constructed. It is sufficient to say that it contains a central envelope extending the length of the carton but not attached to the end walls. On each side of this envelope there are five lateral partition strips with tabs glued to the side and to a sheet of liner paper. This liner paper in turn is glued to the side wall of the carton. The envelope extends to the bottom of the carton. The handle member is enclosed within the two sides of the envelope with its hand grip portion extending upward from the shoulders of the wall portion through a slot cut in the centre of the top of the envelope. When the handle member is pulled up to its operative position its shoulders engage the under sides of the shoulders of the envelope on each side of the centre slot and this engagement prevents the handle member from coming out of the carton. The evidence indicates that Mr. Vesak gave instructions for the preparation of a sample of his carton to be shown to the defendant's patent attorney and a sample of this was filed as Exhibit 87. There are differences between Exhibit Z-34 and Exhibit 87 but, for the present purposes, I deem them not material.

I have examined Exhibits Z-34 and 87 and considered the arguments of counsel concerning them and have no hesitation in finding that Mr. Vesak's carton, whether exemplified by Exhibit Z-34 or by Exhibit 87, cannot possibly be con-

sidered a prior use of the invention defined in Claim 1 of the patent in suit. In the first place, its handle member is completely enclosed within the sides of the envelope and does not separate the rows of bottles from each other. It is not a partition member at all. The function of longitudinal division is performed by the envelope. Moreover, the lateral partitions on each side of the envelope are not transverse partition members, within the proper meaning of the term "transverse". They extend only from the side of the envelope to the liner paper which is in turn glued to the side wall. They do not cross anything. Thus the carton does not contain any mutually transverse partition members so that these essential elements of Claim 1 are not present in it. And it follows, as a matter of course, that the outward limitation of the handle member cannot be accomplished by co-operation of the kind specified in Claim 1. What does co-operate with the handle member to limit its outward movement is the envelope via the undersides of its shoulders and it is not, in any sense, transverse to the handle member, even if it were considered the selected partition member, within the meaning of Claim 1. Thus, Mr. Vesak's carton cannot possibly be considered a prior use of the invention defined in Claim 1. It is inconceivable that anyone looking at Mr. Vesak's carton and hoping to achieve the invention in suit would say—this gives me what I want!

Under the circumstances, I need not refer to the evidence given by Mr. C. M. Devaney, Mr. Vesak's neighbor, or that of Mr. George Christison, his assistant.

Nor should I attempt in this case to determine what constitutes a disclosure of an invention "in such manner that it had become available to the public" within the requirements of section 63(1)(a) of the Act, notwithstanding the careful and able arguments of counsel. In view of my findings that the cartons devised by Mr. Sharpe and Mr. Vesak are not prior uses of the invention covered by the patent in suit any statement that I might make on the subject would be plainly *obiter*.

Consequently, I find that Claim 1 and Claims 4, 5, 6 and 7 to the extent that each includes Claim 1 are valid.

During the trial there was a good deal of argument about Claim 2. Counsel for the defendant contended that it was contrary to the disclosures of the patent specification. If the plaintiff had not introduced the issue of infringement of

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the plaintiff's patent by the production and sale of Exhibit 12 type cartons Claim 2 would not have been in suit. Consequently, since I have found that this issue was unwarranted and unduly prolonged the trial I am of the view that I should not make any pronouncement regarding Claim 2 or with regard to Claims 4, 5, 6 and 7 to the extent that they include Claim 2. And I should point out that Claims 8 and 9 were not attacked. Since the statutory presumption of validity is in their favor I need not make any declaration with respect to them.

It follows from what I have said that the defendant's counterclaim must be dismissed and the plaintiff's action allowed to the extent that it claims damages for infringement of the patent in suit by the production and sale of Exhibit 13 type cartons. It will be entitled to judgment for the relief claimed. If it elects damages rather than an account of profits and the parties cannot agree on the amount of the damages to which the plaintiff is entitled, there will be a reference to the Registrar or to a Deputy Registrar to ascertain such amount and judgment for the amount so found.

There remains only the matter of costs. Earlier in these reasons for judgment, I found that the time of the trial was unduly extended by the introduction of the issue of infringement of the patent by the production and sale of Exhibit 12 type cartons and I held that the defendant will be entitled to the costs properly attributable to such undue extension of time. After perusal of the transcript, I now fix the extent of this undue extension at three full days, with the result that the defendant will be entitled to its costs of such three full days, to be determined by the taxpayer.

It follows that the plaintiff's costs will be costs of the action and of the counterclaim except for the costs of the said three days allowed to the defendant as aforesaid. The said costs of the defendant will be offset against and deducted from the costs of the plaintiff, limited as aforesaid to its taxed costs, except for the costs of the three days allowed to the defendant.

Judgment accordingly.

BETWEEN:

SEALY SLEEP PRODUCTS LIM-
ITED (Opponent)

APPELLANT;

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AND

SIMPSON'S-SEARS LIMITED (Ap-
plicant)

RESPONDENT.

Trade Marks—The Unfair Competition Act, 1932, S. of C. 1932, c. 38, ss. 2 (k), 2(l)—Trade Marks Act, S. of C, 1953, c. 49, ss. 2(b), 6(1), 6(2), 6(5), 12(1)(a), 12(1)(d) 13, 16(1)(b), 37, 37(2)(b), 37(2)(c), 37(8), 55(1)—Use of suffix in two trade marks not a test of confusion—Trade marks to be looked at in their totality—Whether two trade marks confusing a matter of first impression—Trade marks “Sears-O-Pedic” and “Posturepedic” not confusing—No monopoly in use of suffix “-pedic”—Registrar of Trade Marks not a party to proceedings—Name of Registrar of Trade Marks to be left out of style of cause.

The respondent applied on August 7, 1957, for the registration of “Sears-O-Pedic” as a trade mark under the *Trade Marks Act*, stating that it had used the trade mark in association with mattresses since April 18, 1956, and requested its registration in respect of such wares. Pursuant to section 37 of the Act the appellant filed a statement of opposition, dated February 10, 1958, to the respondent’s application, the grounds of opposition being that the trade mark was not registrable because it was confusing with the opponent’s registered trade mark “Posturepedic” which had been registered on June 27, 1953, for use in association with the sale of mattresses etc., that the applicant was not entitled to registration because on the date on which it or its predecessor in title first used the trade mark or made it known it was confusing with the opponent’s trade mark which had been previously used in Canada by the opponent and its predecessor in title Sears Incorporated and that the trade mark was not registrable because the prefix “Sears-” was primarily the name or the surname of an individual who was living or had died within thirty years. The Registrar of Trade Marks held that the suffix PEDIC was common to the trade and that in the light of this the two word marks were not confusing and he rejected the opposition pursuant to section 37(8) of the Act and notified the parties accordingly. The appellant appealed from this decision.

Held: That the appeal to this Court granted by section 55(1) of the Act is an appeal from the Registrar’s decision, not from the reasons on which he based it, that the Court is not concerned with whether the reasons given by the Registrar are right or not and that the only question for consideration is whether the Registrar was right in rejecting the opposition.

2. That the use of a suffix in two trade marks is not of itself a test of whether either of them is confusing with the other.
3. That it is not a proper approach to the determination of whether one trade mark is confusing with another to break them up into their elements, concentrate attention on the elements that are similar and conclude that, because there are similarities in the trade marks, the trade marks as a whole are confusing with one another.

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4. That trade marks may be different from one another and, therefore, not confusing with one another when looked at in their totality, even if there are similarities in some of the elements when viewed separately.
5. That it is the combination of the elements that constitutes the trade mark and it is the effect of the trade mark as a whole, rather than that of any particular part of it, that must be considered. *British Drug Houses Ltd. v. Battle Pharmaceuticals* [1944] Ex. C.R. 239 at 251; [1946] S.C.R. 50 applied.
6. That the fact that both the respondent's trade mark "Sears-O-Pedic" and the appellant's registered trade mark "Posturepedic" both contain the suffix "-pedic" does not determine that the respondent's trade mark was, either as at April 18, 1956, or as at August 7, 1957, confusing with the appellant's registered trade mark.
7. That if the two trade marks are looked at in their totality it is clear that the respondent's trade mark was not and is not confusing with the appellant's registered trade mark.
8. That the principle of the decision in *Aristoc Ld. v. Rysta, Ld.* [1945] A.C. 68 that the question whether two marks are similar must be answered by the judge on whom the responsibility lies as a matter of first impression is applicable to cases under the *Trade Marks Act* and that the first impression made by the respondent's trade mark "Sears-O-Pedic" would be that it is not confusing with the trade mark "Posturepedic".
9. That anyone who saw or heard the two trade marks could not reasonably think that "Sears-O-Pedic" was confusing with "Posturepedic" and it is not likely that anyone who purchased a "Sears-O-Pedic" mattress would think that he was buying the appellant's product, or *vice versa*.
10. That the use of both trade marks in the same area would not be likely to lead to the inference that wares associated with such trade marks are manufactured, sold, leased or hired by the same person.
11. That the respondent's trade mark was and is plainly not confusing with the appellant's.
12. That the appellant does not have a monopoly in the use of the suffix "-pedic" or a right to prevent anyone from using a trade mark in which it was included.
13. That the respondent's trade mark is not "Sears-" but "Sears-O-Pedic" and the contention put forward on behalf of the appellant that the respondent's trade mark "Sears-O-Pedic" was not registrable because the prefix "Sears" is primarily the name or surname of an individual who is living or has died within the preceding thirty years should be dismissed out of hand.
14. That the Registrar of Trade Marks is not a party to the proceedings and his name should be left out of the style of cause.
15. That the appeal must be dismissed.

APPEAL from decision of the Registrar of Trade Marks.

The appeal was heard before the President of the Court at Ottawa.

G. E. Maybee, Q.C., for appellant (opponent).

G. F. Henderson, Q.C., for respondent (applicant).

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT on the conclusion of the hearing (June 2, 1960), delivered the following judgment:

This is an appeal from the decision of the Registrar of Trade Marks, dated June 4, 1959, rejecting the appellant's opposition to the respondent's application for the registration of "Sears-O-Pedic" as a trade mark under the *Trade Marks Act*, Statutes of Canada, 1953, Chapter 49.

In its application for the registration, dated August 7, 1957, the respondent stated that it had used the trade mark in association with mattresses since April 18, 1956, and requested its registration in respect of such wares. The application was given No. 241,882.

Pursuant to section 37 of the *Trade Marks Act* the appellant filed a statement of opposition to the respondent's application, dated February 10, 1958, the grounds of opposition being as follows:

1. The trade mark "SEARS-O-PEDIC" is not registrable because it is confusing with the opponent's registered trade mark "POSTURE-PEDIC" which was registered on June 27, 1953, under N.S. 183/46693 for use in association with the sale of mattresses and bedding including studio couches, divans, studio lounge beds, sofa beds, upholstered furniture convertible to or usable as a bed, chairs, bed springs, box springs, foundation units, pillows, cushions and comforts.
2. The applicant is not the person entitled to registration because on the date on which the applicant or its predecessor in title first used the trade mark "SEARS-O-PEDIC" or made it known it was confusing with the opponent's said trade mark "POSTURE-PEDIC" and the opponent's said trade mark had been previously used in Canada on the said wares by the opponent and its predecessor in title "SEARS INCORPORATED".
3. The trade mark "SEARS-O-PEDIC" is not registrable as advertised because the prefix "SEARS-" is primarily the name or the surname of an individual who is living or has died within the preceding thirty years.

The trade mark "Posturepedic" was registered in Canada under No. 183 N.S. 46693 by Sealy, Incorporated, the United States counterpart of the appellant, on June 27, 1953, as a standardization trade mark, and in the same year it was assigned to the appellant together with the goodwill of the business carried on in Canada. The first use of the trade mark in Canada was on January 1, 1954, and since that date it has been used in Canada only by the appellant and its licensees. The registration was amended on September 4,

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1958, limiting the wares in respect of which the trade mark was used to mattresses, bed springs, box springs, foundation units and cushions. It was thus established that the trade mark was used by the appellant and its licensees both as at April 18, 1956, when the respondent first used its trade mark and also as at August 7, 1957, when it applied for its registration.

In support of the opposition several affidavits were filed with the Registrar, namely, by Roy Vincent Jackson, George Rota, Bernard Nathanson and Earl H. Bergmann and against it there were affidavits by Frederick C. Aubrey, John G. MacLean, Joseph Betel, Walter E. Bray, Joseph R. O'Kell and Thomas L. Smith. In reply to the respondent's affidavits there was a further affidavit by Bernard Nathanson.

In addition to these affidavits the Registrar had before him the applicant's counter statement in answer to the statement of objection, a written argument by counsel for the opponent and a written argument on behalf of the applicant. There was also a hearing before the Registrar on April 20, 1959.

In his decision the Registrar stated that the issue to be determined in the opposition was whether the applicant's trade mark "SEARS-O-PEDIC" was confusing with the opponent's registered trade mark "POSTUREPEDIC" when used on the same wares. In his opinion, the suffix -pedic had been extensively used in Canada and he held that the suffix PEDIC was common to the trade and that in the light of this the two word marks were not confusing and he rejected the opposition pursuant to section 37(8) of the Act and notified the parties accordingly.

The appellant appealed from this decision on the following grounds:

1. That the learned Registrar erred in holding that the suffix PEDIC is common to the trade.
2. That the learned Registrar erred in holding that the trade mark SEARS-O-PEDIC is not confusing with the trade mark, "POSTUREPEDIC".
3. That the learned Registrar erred in rejecting the opposition.

On the hearing of the appeal a further affidavit by Earl H. Bergmann was submitted for the appellant and further affidavits were submitted on behalf of the respondent, namely by Joseph Betel, Lyman C. Johnston, and two affidavits by Walter Edmond Bray.

My first comment on the Registrar's decision is that the appeal to this Court granted by section 55(1) of the Act is an appeal from the Registrar's decision, not from the reasons on which he based it, and that his decision under section 37(8) was a decision to reject the appellant's opposition. Consequently, this Court is not concerned with whether the reasons given by the Registrar for his decision were right or not. The only question for consideration is whether the Registrar was right in rejecting the opposition. The jurisdiction of the Court is limited to the determination of this question.

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While I do not accept the Registrar's reasons for rejecting the opposition I have no hesitation in finding that his decision was plainly right.

To succeed in its appeal the appellant must rely either on section 37(2)(b) of the Act or on section 37(2)(c), which read as follows:

37. (2) Such opposition may be based on any of the following grounds:
 (b) that the trade mark is not registrable;
 (c) that the applicant is not the person entitled to registration; or

Section 37(2)(b) throws the appellant back to section 12(1)(d) which provides:

12. (1) Subject to section 13, a trade mark is registrable if it is not
 (d) confusing with a registered trade mark or

and that in turn throws it back to section 6. Section 37(2)(c) throws the appellant back to section 16(1)(b) which provides:

16. (1) any applicant who has filed an application in accordance with section 29 for registration of a trade mark that is registrable and that he or his predecessor in title has used in Canada or made known in Canada in association with wares or services is entitled, subject to section 37, to secure its registration in respect of such wares or services unless at the date on which he or his predecessor in title first so used it or made it known it was confusing with

- (b) a trade mark in respect of which an application for registration had been previously filed in Canada by any other person; . . .

and this also throws the appellant back to section 6.

Thus, if the appellant is to succeed it must show that the respondent's trade mark "Sears-O-Pedic" was confusing with its registered trade mark "Posturepedic" as at April 18, 1956, when the respondent first used it and or as at August 7, 1957, when the respondent applied for its registration and that it is, consequently, not registrable by reason of section 12(1)(d) to which I have already referred.

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Thus the issue in the case becomes the narrow one whether the respondent's trade mark "Sears-O-Pedic" was confusing with the appellant's registered trade mark "Posturepedic".

On the subject whether one trade mark is confusing with another the *Trade Marks Act* seeks to clarify some of the difficulties that arose under *The Unfair Competition Act, 1932*, Statutes of Canada, 1932, Chapter 38. It defines "confusing" by section 2(b) as follows:

2. In this Act,

(b) "confusing" when applied as an adjective to a trade mark or trade name, means a trade mark or trade name the use of which would cause confusion in the manner and circumstances described in section 6;

Then section 6 gives guidance in the determination of whether a trade mark or trade name is confusing. Section 6(1) provides:

6. (1) For the purposes of this Act a trade mark or trade name is confusing with another trade mark or trade name if the use of such first mentioned trade mark or trade name would cause confusion with such last mentioned trade mark or trade name in the manner and circumstances described in this section.

And section 6(2) provides:

6. (2) The use of a trade mark causes confusion with another trade mark if the use of such trade marks in the same area would be likely to lead to the inference that the wares or services associated with such trade marks are manufactured, sold, leased, hired or performed by the same person, whether or not such wares or services are of the same general class.

And then section 6(5) gives further guidance in setting out what should be considered in determining whether trade marks or trade names are confusing. It provides:

6. (5) In determining whether trade marks or trade names are confusing, the Court or the Registrar, as the case may be, shall have regard to all the surrounding circumstances including

- (a) the inherent distinctiveness of the trade marks or trade names and the extent to which they have become known;
- (b) the length of time the trade marks or trade names have been in use;
- (c) the nature of the wares, services or business;
- (d) the nature of the trade, and
- (e) the degree of resemblance between the trade marks or trade names in appearance or sound or in the ideas suggested by them.

These provisions replace, *inter alia*, such provisions in *The Unfair Competition Act, 1932*, as section 2(k), defining

“similar” in relation to trade marks, trade names or distinguishing guises, and section 2(l), defining “similar” in relation to wares.

In the material before the Registrar much was made of the use of the suffix “-Pedic” in the two marks and there was evidence of its use in trade marks other than those of the parties to these proceedings, but the use of a suffix in two trade marks is not of itself a test of whether either of them is confusing with the other. In the *British Drug Houses Ltd. v. Battle Pharmaceuticals*¹ I made the following statement:

It is, I think, firmly established that, when trade marks consist of a combination of elements, it is not a proper approach to the determination of whether they are similar to break them up into their elements, concentrate attention upon the elements that are different and conclude that, because there are differences in such elements, the marks as a whole are different. Trade Marks may be similar when looked at in their totality even if differences may appear in some of the elements when viewed separately. It is the combination of the elements that constitutes the trade mark and gives distinctiveness to it, and it is the effect of the trade mark as a whole, rather than of any particular part in it, that must be considered.

The decision in the above case was affirmed by the Supreme Court of Canada²: *vide also Re Christiansen's Trade Mark*³; *Sandow Ltd's Application*⁴; and *Freed & Freed Ltd. v. Registrar of Trade Marks et al.*⁵

The principle thus stated is as applicable in cases under the *Trade Marks Act* as it was in cases under *The Unfair Competition Act, 1932*. And its converse is equally true. It is not a proper approach to the determination of whether one trade mark is confusing with another to break them up into their elements, concentrate attention upon the elements that are similar and conclude that, because there are similarities in the trade marks, the trade marks as a whole are confusing with one another. Trade marks may be different from one another and, therefore, not confusing with one another when looked at in their totality, even if there are similarities in some of the elements when viewed separately. It is the combination of the elements that constitutes the trade mark and it is the effect of the trade mark as a whole, rather than that of any particular part in it, that must be considered.

¹ [1944] Ex. C.R. 239 at 251.

³ (1886) 3 R.P.C. 54.

² [1946] S.C.R. 50.

⁴ (1914) 31 R.P.C. 196.

⁵ [1950] Ex. C.R. 431.

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Thus the fact that both the respondent's trade mark "Sears-O-Pedic" and the appellant's registered trade mark "Posturepedic" both contain the suffix "-pedic" does not determine that the respondent's trade mark was, either as at April 18, 1956, or as at August 7, 1957, confusing with the appellant's registered trade mark "Posturepedic". If the two trade marks are looked at in their totality it is, in my opinion, clear beyond dispute that the respondent's trade mark was not and is not confusing with the appellant's registered trade mark.

I should also, in this connection, refer to the decision of The House of Lords in *Aristoc Ltd. v. Rysta Ltd.*¹ that the question whether two marks are similar must be answered by the judge on whom the responsibility lies as a matter of first impression. They adopted as a fair statement of the duty cast upon the Court the following passage from the dissenting judgment of Luxmore L.J. in the Court of Appeal²:

The answer to the question whether the sound of one word resembles too nearly the sound of another so as to bring the former within the limits of section 12 of the Trade Marks Act, 1938, must nearly always depend on first impression, for obviously a person who is familiar with both words will neither be deceived nor confused. It is the person who only knows the one word, and has perhaps an imperfect recollection of it, who is likely to be deceived or confused. Little assistance, therefore, is to be obtained from a meticulous comparison of the two words, letter by letter and syllable by syllable, pronounced with the clarity to be expected from a teacher of elocution.

The Court must be careful to make allowance for imperfect recollection and the effect of careless pronunciation and speech on the part not only of the person seeking to buy under the trade description but also of the shop assistant ministering to that person's wants.

Lord Luxmore's statement was expressly approved by Kerwin J., as he then was, giving the judgment of the Supreme Court of Canada, in *Battle Pharmaceutical Ltd.*³ and must be regarded as the leading authority on the subject.

The principle laid down in the *Aristoc* case (*supra*) is applicable to cases under the *Trade Marks Act*. I must say that, in my opinion, the first impression made by the respondent's trade mark "Sears-O-Pedic" would be that it is not confusing with the trade mark "Posturepedic". I do not believe that any one who saw or heard the two trade marks could reasonably think that "Sears-O-Pedic" was

¹ [1945] A.C. 68.

² (1943) 60 R.P.C. 87 at 108.

³ [1946] S.C.R. 50 at 53.

confusing with "Posturepedic" or that anyone who purchased a "Sears-O-Pedic" mattress would be likely to think that he was buying the appellant's product, or *vice versa*. In my judgment, the use of both trade marks in the same area would not be likely to lead to the inference that the wares associated with such trade marks are manufactured, sold, leased or hired by the same person. The respondent's trade mark was and is plainly not confusing with the appellant's.

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It appears from the material filed before the Registrar on behalf of the appellant and relied upon by counsel for it in this appeal that it assumed that because it had incorporated the suffix "-pedic" in its trade mark "Posturepedic" it had a monopoly in the use of that suffix and had a right to prevent anyone from using a trade mark in which it is included. The appellant has no such monopoly and no such right. In every case of a trade mark including such a suffix the question whether it was or is confusing with the appellant's trade mark must be determined by the appropriate tests.

There remains the contention put forward on the appellant's behalf that the respondent's trade mark "Sears-O-Pedic" was not registrable because the prefix "Sears" is primarily the name or surname of an individual who is living or has died within the preceding thirty years. This ground of objection was based on section 12(1)(a) of the Act which provides:

12. (1) Subject to section 13, a trade mark is registrable if it is not
(a) a word that is primarily merely the name or the surname of an individual who is living or has died within the preceding thirty years;

The contention thus put forward should be dismissed out of hand. The respondent's trade mark is not "Sears-" but "Sears-O-Pedic" and that is not within the prohibition of section 12(1)(a).

In my judgment, the Registrar was plainly right in rejecting the appellant's opposition. This appeal must, therefore, be dismissed with costs. There will, of course, be no costs for or against the Registrar of Trade Marks. He is really not a party to these proceedings and I have accordingly left his name out of the style of cause used in these reasons.

Judgment accordingly.

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BETWEEN:

THE DENTISTS' SUPPLY COM-
PANY OF NEW YORK }

APPELLANT;

AND

THE DEPUTY MINISTER OF NA-
TIONAL REVENUE (CUSTOMS
AND EXCISE) }

RESPONDENT.

*Revenue—Customs Duty—Customs Act, R.S.C. 1952, c. 58, s. 45—Customs
Tariff, R.S.C. 1952, c. 60, Items 688, 476—Words in Customs Tariff to
receive ordinary meaning unless context requires special technical or
particular meaning—Meaning of words in Customs Tariff a question of
fact—Court not to substitute its conclusion for finding of Tariff Board
if reasonably made.*

The appellant imported certain articles called shade guides. These were of various types, some having plastic teeth and others porcelain teeth. They came in small boxes, each having a holder containing twelve blades, each having a tooth fastened to its top by a base metal pin. The teeth on the blades were of different shades. Shade guides were produced by manufacturers of artificial teeth and given to dentists to enable them to select and order an artificial tooth or artificial teeth of a shade that would match the patient's own or other artificial teeth. The dentist put a blade with its attached tooth against the patient's teeth and repeated the process until a matching shade was found.

The Minister decided that the shade guides were dutiable according to the material of which they were made. The appellant appealed from this decision to the Tariff Board contending that the shade guides were "artificial teeth, not mounted" under Item 688 of the *Customs Tariff* or, in the alternative, that they were "dental instruments" under Item 476 and, therefore, in either event entitled to entry free from duty. The Tariff Board held that the shade guides were not artificial teeth and were not dental instruments within the ordinary understanding of the words and dismissed the appeal. The appellant then, having obtained leave under section 45 of the *Customs Act*, appealed to this Court from the decision of the Tariff Board on the question of law whether the Tariff Board erred as a matter of law in holding as it did.

Held: That the right of appeal conferred by section 45 of the *Customs Act* is confined to an appeal, upon leave being obtained from this Court or a judge thereof, upon a question that in the opinion of the Court or judge is a question of law.

2. That it is not within the competence of this Court to draw its own conclusion from the evidence adduced before the Tariff Board, its jurisdiction being restricted to determining whether the Tariff Board erred as a matter of law in holding as it did.
3. That there is no right of appeal from the decision of the Tariff Board on findings of fact and this Court has no right to substitute its own conclusion for the finding of the Tariff Board if there was material before it from which it could reasonably have found as it did.
4. That the construction of a statutory enactment is a matter of law.

5. That if the decision in *The Deputy Minister of National Revenue for Customs and Excise v. Rediffusion Inc.* [1953] Ex. C.R. 221 purports to state as a principle of general application that the meaning of words in a statute is a matter of law only the statement is too broad.
6. That, in the absence of a clear expression to the contrary, words in the *Customs Tariff* should receive their ordinary meaning but if it appears from the context in which they are used that they have a special technical or particular meaning they should be read with such meaning and that the ordinary meaning or special technical or particular meaning of such words is a question of fact. *Girls' Public Day School Trust v. Ereaut* [1931] A.C. 12 applied.
7. That the terms "artificial teeth, not mounted" and "dental instruments", as used in Items 688 and 476 of the *Customs Tariff* respectively, are not defined and should receive their ordinary meaning.
8. That there was plenty of material before the Tariff Board on which it could reasonably declare that the shade guides imported by the appellant were not "artificial teeth, not mounted", and, therefore, not classifiable under Tariff Item 688.
9. That there was ample material before the Tariff Board to warrant the finding that the shade guides imported by the appellant were not "dental instruments" within the meaning of the term in Tariff Item 476.
10. That there was no error as a matter of law in the declaration of the Tariff Board and that the appellant's appeal must be dismissed.

APPEAL, pursuant to leave, from decision of the Tariff Board.

The appeal was heard before the President of the Court at Ottawa.

M. B. K. Gordon, Q. C., and *J. D. Kokonis* for appellant.

C. R. O. Munro for respondent.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (June 16, 1960) delivered the following judgment:

This is an appeal, pursuant to leave, under section 45 of the *Customs Act*, R.S.C. 1952, Chapter 58, from the declaration of the Tariff Board, dated May 14, 1957, in Appeal No. 415, dismissing the appellant's appeal from the decision of the respondent, dated November 5, 1956, that certain articles, called shade guides, imported by it under Montreal Customs Entry No. Y53704, dated July 30, 1956, were dutiable according to the material of which they were made.

The Customs entry showed the importation of nine cartons of shade guides as "Mfg of Synthetic Resin N O P", and the invoice showed that the nine cartons consisted of 1,000 Bioform Shade Guides, 1,000 New Hue Shade Guides,

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1,100 Biotone Shade Guides and 1,000 New Solila Shade Guides. The invoice carried a notation that the shade guides were dutiable under Item 908 of the *Customs Tariff*, R.S.C. 1952, Chapter 60, as amended in 1954, which reads as follows:

908. Manufactures of synthetic resins including floor and wall tile containing synthetic resin, n.o.p. . . .

which item carries a duty of 20 per cent under the most-favoured-nation tariff. But only one kind of shade guides had plastic teeth, namely, the Biotone Shade Guides, the teeth in the other shade guides being made of porcelain, and the Minister finally decided that the shade guides were dutiable according to the material of which they were made.

Before setting out the issues in the appeal I should give a brief description of a shade guide and explain the purpose for which it is used. A sample of the kind of shade guide imported by the appellant was filed as Exhibit A2. This is contained in a small box carrying the description "Shade Guide for Trubyte Bioform Teeth" on its top and sides. In the box there is a thermoplastic holder containing twelve plastic blades, each having a tooth fastened to its top by a base metal pin. The teeth on the blades are of different shades. Shade guides are produced by manufacturers of artificial teeth and are given to dentists to enable them to select and order an artificial tooth or artificial teeth of a shade that will match the patient's own or other artificial teeth. The dentist puts a blade with its attached tooth against the patient's teeth and repeats the process until a matching shade is found. Each blade carries a number on it so that when the dentist has selected the proper shade he can order an artificial tooth or artificial teeth of such shade by reference to the number on the blade. Thus, in a sense, the shade guide, in addition to being an aid to the dentist, serves as a catalogue of the manufacturer's artificial teeth so far as color is concerned.

It was contended before the Tariff Board that the shade guides imported by the appellant were, in fact, "artificial teeth, not mounted", under Item 688 of the *Customs Tariff* or, in the alternative, that they were "dental instruments" under Item 476 and, therefore, in either event, entitled to entry free of duty. Item 688 reads as follows:

688. Artificial teeth, not mounted, and materials for use only in the manufacture thereof.

And Item 476 is in the following terms:

476. Surgical and dental instruments of any material; surgical needles, clinical thermometers and cases thereof; X-ray apparatus; microscopes valued at not less than fifty dollars each, retail; complete parts of all the foregoing.

The Tariff Board, after hearing the evidence of the witnesses called for the appellant, held that the shade guides were not artificial teeth and were not dental instruments within the ordinary understanding of the words and dismissed the appeal.

The appellant then obtained leave under section 45 of the *Customs Act* to appeal to this Court from the decision of the Tariff Board on the following question of law:

Did the Tariff Board err as a matter of law in holding that the articles referred to in the said appeal as shade guides were not "artificial teeth, not mounted" and therefore not classifiable under Item 688 of the Customs Tariff and, alternatively, that such articles are not "dental instruments" and therefore not classifiable under Item 476 of the Customs Tariff.

Counsel for the appellant contended that since no question of the credibility of any witness was involved this Court is in as good a position to assess the evidence before the Tariff Board and to draw the right inference from it as the Board was, that the Board had not arrived at the proper conclusion on the evidence before it and that this Court should make the finding that the Board should have made. In support of his contention counsel relied upon the following decisions, namely, *Coghlan v. Cumberland*¹; *Montgomerie & Co., Limited v. Wallace James*² in which the Earl of Halsbury L.C. said, at page 75:

Where no question arises as to truthfulness, and where the question is as to the proper inferences to be drawn from truthful evidence, then the original tribunal is in no better position to decide than the judges of an Appellate Court.

*Annable v. Coventry*³; *Dominion Trust Company v. New York Life Insurance Co.*⁴; *Mersey Docks and Harbour Board v. Procter*⁵; *Wilson v. Kinnear et al.*⁶; *Borrowman v. The Permutit Company*⁷; *Powell and Wife v. Streatham Manor Nursing Home*⁸; and, finally, *Benmax v. Austin Motor Co. Ltd.*⁹

¹ [1898] 1 Ch. D. 704.

² [1904] A.C. 73.

³ (1912) 46 Can. S.C.R. 573.

⁴ [1919] A.C. 254.

⁵ [1923] A.C. 253.

⁶ [1923] 2 D.L.R. 641.

⁷ [1925] S.C.R. 685.

⁸ [1935] A.C. 243.

⁹ [1955] A.C. 370.

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The principle laid down by these decisions would be applicable if the appeal to this Court from the declaration of the Tariff Board were an appeal *de pleno* but such is not the case. The right of appeal conferred by section 45 of the *Customs Act* is confined to an appeal, upon leave being obtained from this Court or a judge thereof, upon a question that in the opinion of the Court or judge is a question of law and in the present case it is limited to the question stated. Consequently, the decisions relied upon by counsel for the appellant are not applicable. It is not within the competence of this Court to draw its own conclusion from the evidence adduced before the Tariff Board. Its jurisdiction is restricted to determining whether the Tariff Board erred as a matter of law in holding as it did.

The nature of the limited right of appeal conferred by section 45 of the *Customs Act* was considered by this Court in *Deputy Minister of National Revenue for Customs and Excise v. Parke Davis & Company Limited*¹. This was the first decision of this Court in an appeal under the *Customs Act* from a decision of the Tariff Board. In that case the issue before the Tariff Board had been whether a certain substance called Penicilin S-R, the subject of the importations in question, was a biological product within the meaning of Item 206a of the *Customs Tariff* and exempt from duty by virtue of it. The Item read as follows:

206a. Biological products, animal or vegetable, N.O.P., for parenteral administration in the diagnosis or treatment of diseases of man, when manufactured under license of the Department of Pensions and National Health under regulations prescribed by the Food and Drugs Act; . . .

The issue was a difficult one. The meaning of the term "biological products" was in question and there was controversy over whether Penicillin S-R was a biological product within the meaning of the term as used in Tariff Item 206a. The Tariff Board concluded that it was and the Deputy Minister, having obtained leave to do so, appealed on the question whether the Tariff Board had erred as a matter of law in so deciding. At page 20, I expressed the limitation of the Court's jurisdiction in the following terms:

The issue in this appeal is not whether Penicillin S-R was actually a biological product within the meaning of Tariff Item 206a but whether the Tariff Board erred as a matter of law in deciding that it was and, therefore, exempt from duty by virtue of it. If there was material before the

¹ [1954] Ex. C.R. 1.

Board from which it could reasonably decide as it did this Court should not interfere with its decisions even if it might have reached a different conclusion if the matter had been originally before it.

The limitation thus expressed should have been stated more precisely. If the decision of the Tariff Board was a finding of fact and there was material before it on which it could reasonably have based its finding it is not within the competence of this Court to interfere with it, no matter what its conclusion might have been if a right of appeal *de pleno* from the decision had been conferred by the *Customs Act*. There is no right of appeal from the decision of the Tariff Board on findings of fact and it seems to me that the same is true in respect of findings of mixed law and fact. The only right of appeal conferred by section 45 of the *Customs Act* is an appeal upon a question that in the opinion of this Court or a judge thereof is a question of law and, even in such a case, only after leave to appeal on such question has been obtained. Thus, to the extent that the declaration of the Tariff Board in the present case was a finding of fact, this Court has no right to interfere with it unless it was so unreasonable as to amount to error as a matter of law. But it cannot be too strongly stressed that this does not mean that there was error in the finding of fact merely because the Court might have found otherwise if a full right of appeal had been conferred. Thus, this Court has no right to substitute its own conclusion for the finding of the Tariff Board if there was material before it from which it could reasonably have found as it did.

There is also the fact that on an appeal to the Tariff Board the onus of proof necessary to establish the appellant's appeal so far as it is based on matters of fact lies on the appellant and it would be within the competence of the Board to dismiss an appeal on the ground that such onus has not been discharged.

It is established law that the construction of a statutory enactment is a matter of law. It was so held by Cameron J. in *General Supply Co. Ltd. v. Deputy Minister of National Revenue, Customs and Excise, et al.*¹, but in *The Deputy Minister of National Revenue for Customs and Excise v. Rediffusion Inc.*², he extended the application of the principle and held that the meaning of certain words in Item 6

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¹ [1953] Ex. C.R. 185.

² [1953] Ex. C.R. 221.

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of Schedule 1 of the *Excise Tax Act*, R.S.C. 1927, Chapter 179, was a matter of law only. *Vide* also *W. T. Hawkins Ltd. v. Deputy Minister of National Revenue for Customs and Excise*¹.

If the decision in the *Rediffusion Inc.* case (*supra*) purports to state as a principle of general application that the meaning of words in a statute is a matter of law only I am unable to agree with it. In my opinion, such a statement would be too broad. In the *Parke Davis & Company Limited* case (*supra*), at page 15, I stated:

It is, I think, sound to say that, in the absence of a clear expression to the contrary, words in the Customs Tariff should receive their ordinary meaning but if it appears from the context in which they are used that they have a special technical meaning they should be read with such meaning.

I am not aware of any decision contrary to this statement. In that particular case I expressed the opinion that Tariff Item 206a was concerned with substances of a pharmaceutical nature, that, consequently, the term "biological products" must be regarded as a technical term and read with the meaning it would have to persons in the pharmaceutical industry, that in that field it had in 1936, and for some time previously, a generally known meaning of wide import, namely, the dictionary meaning which I had cited, and that that was the meaning that should be given to it in Tariff Item 206a. The statement in the *Parke Davis & Company Limited* case (*supra*) was, of course, a conclusion of law based on the construction of the *Customs Act* and the meaning to be given to the words used in it. But once it has been decided that, in the absence of a clear expression to the contrary, words in a statute should receive their ordinary meaning but that if it appears from the context in which they are used that they have a special technical meaning and should be read with such meaning, then it seems clear that what the ordinary meaning of the words is or what their special technical meaning is, if they have one, is a question of fact.

The ordinary meaning of a word is the meaning with which it is ordinarily used by persons having a knowledge of the language in which it is used. It is unrealistic, in my opinion, to say that such meaning is a matter of law. When

¹ [1957] Ex. C.R. 206.

it is sought to ascertain the ordinary meaning of a word resort is had to recognized dictionaries, not to judicial decisions, for it is in the dictionaries that the ordinary meaning of a word is to be found. It is the lexicographer, not the judge, who is consulted. Thus it may properly be stated that when it has been held that the words in a statute should be read with their ordinary meaning then what such ordinary meaning is should be considered a matter of fact, and not a matter of law. Moreover, the ordinary meaning of a word may not be the same when used under one set of circumstances as when used under another set, or in one country or locality as in another. All of the factors bearing on the meaning with which a word is ordinarily used should be taken into account.

And similarly, when it has been held that, in view of its context or for any other reason, a word has a special technical meaning and should be read with such meaning then what such special technical meaning is should be considered a matter of fact. The same is true in the case of words which have a particular meaning by reason of the circumstances under which or the persons by whom they are generally used. For example, if a word is used in a profession or trade with a particular meaning then the particular meaning which such word has when used by persons in such profession or trade is a question of fact.

The cases in which resort is had to standard dictionaries in order to ascertain the meaning of words in a statute, whether ordinary, specially technical or particular, are so numerous that they need not be cited.

There is support for the opinion thus expressed in the decision of the House of Lords in *Girls' Public Day School Trust v. Ereaut*¹. In that case the question for consideration was whether a certain day school for girls owned by the appellant was a "public school" within the meaning of rule 1(c) of No. VI of Schedule A of the *Income Tax Act, 1918* and that the appellant was, therefore, exempt from income tax in respect of the annual value of the premises. The Commissions for the General Purposes of the Income Tax Acts held that the school was a public school and allowed the appellant's claim but their determination was reversed by Rowlatt J. and his decision was affirmed by the Court of

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¹ [1931] A.C. 12.

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Appeal. The House of Lords unanimously reversed the decision of the Court of Appeal and held, according to the head note:

that the term "public" school, as used in this rule, was not a term of art, and that the question what was the common understanding of the term was a question of fact for the Commissioners; and that, there being ample evidence to support their conclusion, it could not be reviewed.

A careful reading of the speeches delivered in the House of Lords confirms me in the view that the reported head note is correct. The principle laid down in that case is, in my opinion, applicable in the case at bar.

The terms "artificial teeth, not mounted" and "dental instruments", as used in Items 688 and 476 of the *Customs Tariff* respectively, are not defined and they should, therefore, receive their ordinary meaning. It seems obvious to me that what the term "artificial teeth, not mounted" means is a question of fact and, as such, a matter for the Tariff Board. There was some suggestion that the term "dental instruments" had a special technical meaning or a particular meaning to persons in the dental profession. But even if that should be conceded, and it is not clear that it should be, such special technical meaning or such particular meaning is a question of fact and, as such, a matter for the Tariff Board.

I am also clearly of the opinion that the question whether the shade guides imported by the appellant are "artificial teeth, not mounted", within the meaning of Item 688 of the *Customs Tariff*, or "dental instruments", within the meaning of Item 476, is a question of fact for the Tariff Board, and that if there was material before it on which it could reasonably base its finding this Court has no right to disturb it.

I find support for this opinion in the decisions of the House of Lords in *Levene v. Inland Revenue Commissioners*¹ and *Commissioners of Inland Revenue v. Lysaght*². In the former case it was held that the conclusions of the Special Commissioners that the appellant was "resident" and "ordinarily resident" in the United Kingdom for the years in question were findings of fact and that, there being evidence to support them, they could not be disturbed. And in the latter case it was held that the conclusion of the

¹ [1928] A.C. 217.

² [1928] A.C. 234.

Special Commissioners that the respondent was both "ordinarily resident" and "resident" in the United Kingdom for each of the two years in question was a finding of fact and that there was evidence upon which they could properly arrive at that conclusion.

At the hearing before the Tariff Board eleven witnesses were called on behalf of the appellant. These were Mr. J. K. MacNeill, the appellant's divisional sales manager for the Northeastern States and all of Canada and Mr. R. Wainright, the appellant's assistant-treasurer; Dr. A. H. Crowson, Dr. L. E. MacLachlan and Dr. M. Heit, all practising dentists at Ottawa; Major H. W. Hart, an officer of the Royal Canadian Dental Corps; Mr. P. Hannaford, the manager of Allen and Rollaston Laboratories, and Mr. E. Vowles, the owner of Vowles Dental Laboratories, both of which companies make prosthetic appliances for the dental profession; Mr. C. Saunders of Dentcraft Laboratories Limited, a dental technician, Mr. C. T. Hunt, the Ottawa manager of Ash Temple Limited, and Mr. L. Akeson, the Ottawa manager of a Toronto Company, both of which companies sell dental supplies and equipment to the dental profession, laboratories and dental technicians. These witnesses were carefully examined and cross-examined. Counsel for the respondent did not call any witnesses.

I shall deal first with the declaration of the Tariff Board that the shade guides imported by the appellant were not "artificial teeth, not mounted" and, therefore, not classifiable under Item 688 of the *Customs Tariff*. The Shorter Oxford English Dictionary defines "artificial" as follows:

A. adj. 1. Opp. to *natural*. 1. made by or resulting from art or artifice; not natural. 2. made by art in imitation of, or as substitute for, what is natural or real 1577. 3. Factitious; hence, feigned, fictitious, 1650. 4. Affected 1598.

And Webster's New International Dictionary (Second Edition) gives the following definition of "artificial".

1. a. Made or contrived by art; produced or modified by human skill and labor, often as an imitation of something found in nature;—opposed to natural; as, artificial heat or light, gems, salts, minerals, fountains, flowers, breeding. b. Made, esp. by a chemical process, to resemble a raw material, or something derived from it; synthetic; as, artificial cotton or wool.

2. Feigned; fictitious, assumed; not genuine.

3. Affected in manners.

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Counsel for the appellant put two standard questions to almost all of his witnesses, one being whether the article at the end of the blade, which he took from one of the shade guides, was an artificial tooth and the other whether it was mounted. All of the witnesses to whom these questions were put answered that the article was an artificial tooth and that it was not mounted in the sense that it was not processed and finished in a prosthetic appliance or denture to be used in the mouth. Counsel relied upon these answers in support of his contention that the teeth at the ends of the shade guide blades were "artificial teeth, not mounted" within the meaning of Tariff Item 688 and were simply packaged in the form of shade guides for the convenience of the dentists to whom the shade guides were given.

The evidence thus relied upon was not the only evidence before the Board. It was recognized that the function of artificial teeth was to replace lost natural teeth and that artificial teeth were designed for that purpose and it was established beyond dispute that a shade guide tooth, being the tooth attached to the plastic shade guide blade, was not suitable to replace a natural tooth and could not be used for that purpose. It would not be used for mounting in a prosthetic appliance or denture. One reason for this was that it was equipped with a base metal pin by which it was attached to the plastic blade, whereas an artificial tooth to be used in the mouth would either have a precious metal gold plated pin or no pin at all, and the base metal pin in the shade guide tooth would be dissolved by the saliva in the mouth. Indeed, the evidence was overwhelming that the shade guide tooth was unusable as an artificial tooth. It was suggested that it might be used if the base metal pin in it were taken out and replaced by a precious metal pin but it was admitted that this was impracticable and that if it were done the article would be different from what was imported.

It was also proved that the shade guide teeth were never intended to be used as artificial teeth to replace natural teeth. Their purpose was restricted to that of enabling the dentist to select and order an artificial tooth or artificial teeth of a shade that would match his patient's other teeth. From the very beginning of the operation in making shade guides there was a difference between shade guide teeth and artificial teeth in spite of the fact that they were made of

the same material. In the case of artificial teeth where it was necessary to equip them with pins the pins were either square or round and in either case the pins were of precious gold plated metal and were designed to hold the teeth securely in place, whereas the shade guide teeth, since the shade guides were to be given away, were equipped with base metal pins and these were round so that the teeth could swivel on the plastic blade to which they were attached. Thus, although the shade guide teeth had been made from the same material as the artificial teeth they had become different from the artificial teeth because of the different purpose for which they were to be used. There was also evidence that shade guides were given to dentists in Canada by the manufacturers of artificial teeth whereas artificial teeth were sold and several witnesses stated that if they ordered artificial teeth they would not accept shade guides or shade guide teeth as a delivery of their order.

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Finally, there is the fact, notwithstanding the answers of the witnesses to counsel for the appellant, that the tooth at the end of the plastic blade of the shade guide was only part of the shade guide imported by the appellant. In addition to the tooth, there was the plastic blade, to which the tooth was permanently attached by a base metal pin, with its designated number so that the shade guide was, in effect, the appellant's catalogue of its artificial teeth, and the holder in which the plastic blades were kept. What the appellant imported was, not the teeth at the ends of the plastic blades, but the shade guides as a whole. And, certainly, the shade guides, as such, although they included twelve teeth, each permanently attached to a plastic blade, were not the same thing as "artificial teeth, not mounted."

In view of this evidence there was plenty of material before the Tariff Board on which it could reasonably declare that the shade guides imported by the appellant were not "artificial teeth, not mounted", and, therefore, not classifiable under Tariff Item 688. Indeed, I do not see how it could have reasonably declared otherwise. Far from there being any error as a matter of law in this part of the Tariff Board's declaration it was plainly right.

The question whether the shade guides imported by the appellant are "dental instruments" within the meaning of

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the term "surgical and dental instruments" in Item 476 of the *Customs Tariff* is not quite as simple. Here again, since there is no definition of the term "dental instruments" in the *Customs Tariff*, resort may properly be had to the recognized dictionaries for such assistance as they afford in determining its meaning. The Shorter Oxford English Dictionary defines "instrument" as follows:

1. A thing with or through which something is done or affected; a means.
- b. A person made use of by another person or being, for the accomplishment of a purpose (cf. *tool*) ME.
2. A tool, implement, weapon (now usu. dist. from a *tool*, as being used for more delicate work or for artistic or scientific purposes.) M.E.
3. *spec.* A contrivance for producing musical sounds M.E. (in early 19th cent. *spec.* the pianoforte).
4. A part of the body having a special function; an organ—1718.
5. *Law.* A formal legal document whereby a right is created or confirmed, or a fact recorded; a formal writing of any kind, as an agreement, deed, charter, or record, drawn up and executed in technical form 1483.

It is obvious that the word "instrument" has such a wide meaning that it would be ridiculous to think that such wide meaning was intended by the use of the word in the term "surgical and dental instruments" in Tariff Item 476. The term "dental instruments" has plainly a much narrower meaning than that of the word "instrument". The Shorter Oxford English Dictionary defines "dental" as follows:

- A. adj. 1. Of or pertaining to the teeth, or to dentistry; of the nature of a tooth 1599.
2. *Phonology.* Pronounced by applying the tip of the tongue to the front upper teeth, as t, d, n, etc. 1594.

The definitions of "instrument" and "dental" in Webster's New International Dictionary (Second Edition), and in Funk & Wagnalls' New Standard Dictionary of the English Language are to the same effect.

I have not been able to find a definition of the term "dental instruments" in any dictionary.

Counsel for the appellant sought to establish that the term had a particular meaning in the dental profession, including therein dentists, dental technicians and suppliers of dental supplies and equipment, but his witnesses expressed varying opinions about its ambit and what was included in it. Some took a very wide view of the term and

others a more restricted one. For example, Dr. Crowson expressed the opinion that a dental instrument was something that would be used in a patient's mouth to enable the dentist to do his work and obtain a finished dental restoration, that the color of a replacement tooth was of vital importance to the desired aesthetic result and that since a guide was a means to obtain such result it was thereby a dental instrument. Dr. MacLachlan took both a wide and restricted view. When he was asked what sort of articles the term "dental instruments" would suggest to his mind he replied that it would suggest especially instruments that were used in a patient's mouth and in the preparation of, strictly, dental operations or techniques and everything that was used in the operative or restorative part of dentistry and also that the trade would call tools for making dentures, but then he included in the term such things as the dentist's finger, cotton gauze, mixing bowls and electrical or hot water sterilizers. Dr. Heit considered that the term included anything that was used as a means to obtain a desired result in connection with dental work. He would think specifically of mouth mirrors, scalers and explorers and things that were connected with his work and were used in the patient's mouth, but he included the dentist's finger, paper cups, x-ray cards, rubber masking and cellophane strips. But he admitted that he would not expect that a set of dental instruments would include such things as cellophane strips, rubber dams or the aprons put on the patient, and that when dentists used the term they talked about scalers or forceps or instruments of that kind and that in catalogues describing dental instruments such things as mouth mirrors and explorers were included but not shade guides or plastic or cellophane strips. These things were dental supplies or dental materials. Major Hart was an equivocal witness. He stated that a dental instrument was any instrument or means by which a dentist performed or fulfilled a dental requirement and that it was a much wider term than "surgical instrument", which also is included in Tariff Item 476, and he admitted that the dentist's finger was an aid rather than a dental instrument. And he would call such things as cleansing material, cotton gauze, cellophane and paper cups, dental supplies rather than dental

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instruments. In his view, a dental instrument was an instrument that was actually employed in the mouth to do something, such as drilling or cleaning teeth, and it would include an instrument for doing something, such as making a denture. Then he made the generalization that dental instruments covered all the instruments that are accessory to the performance of the dental profession.

Thus there were conflicting opinions on what the term "dental instruments" included. Some of the witnesses included, in addition to the tools used by the dentist in his dental operations such as drills, forceps, scalers and explorers and tools used by dental technicians in making dentures such as chisels and files, other things, namely, such articles as mouth mirrors, tongue depressors, rubber masks and dams, appliances such as electrical sterilizers, containers for mixing materials, including a mortar and pestle, pieces of furniture such as the table in the dentist's office, articles for the patient's convenience or comfort such as paper drinking cups or glasses and substances such as cotton gauze, dental floss, cellophane and plastic strips. Some witnesses included x-ray cards, artificial teeth and even the dentist's finger as dental instruments.

It seems obvious, notwithstanding the opinions of some of the witnesses, that the term "dental instruments" in the context in which it appears in Tariff Item 476 could not reasonably be held to include all of the things referred to. Some of the witnesses recognized this and sought to draw a distinction between dental instruments and dental supplies or dental materials. They would not consider such substances or things as cellophane or plastic strips, cotton gauze, cleansing materials, and paper cups as dental instruments, but rather as dental supplies or dental materials. But the distinction was not clearly drawn. It seems clear to me that some of the articles included by some of the witnesses in their opinions of the ambit of the term "dental instruments" would more properly be described as dental accessories or supplies or dental equipment than as dental instruments, and that, consequently, such opinions of the ambit of the term "dental instruments" as included the dentist's finger and articles that were plainly only dental supplies were valueless and ought to be discarded, quite apart from the question whether they were admissible as evidence at all.

The evidence of Mr. Hunt and Mr. Akeson was different. Mr. Hunt said that his company supplied dental instruments but just called them dental supplies. They all came under one head of dental supplies. The following statements before the Tariff Board are important:

Mr. Buchanan: Have you ever seen these shade guides referred to in literature anywhere as instruments?

Mr. Hunt—Not that I can recall.

Mr. Buchanan: Have you ever used, or have heard anyone use, the words dental instruments with reference to them?

Mr. Hunt: Not until this morning.

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Then Mr. Hunt stated that every manufacturer of dental supplies had his own catalogue of equipment and his supplies were all listed therein. He had never seen shade guides listed in a catalogue. There were references to the term "dental instruments" in catalogues relating to such things as explorers, excavators. On his cross-examination, Mr. Hunt was shown a catalogue of Hu-Friedly Inc., called Dental Art, which was filed as Exhibit D-3. On page 1 the following appears:

Immunity Steel

Authentic Instruments for Oral Surgery Exodontia Pyorrhoea and General Dentistry.

Mr. Hunt agreed that the articles indicated on the page were properly referred to as dental instruments. He was also shown the catalogue of The Cleveland Dental Mfg. Co. called Cleve-Dent, which was filed as Exhibit D-4, and agreed that the instruments shown in it were very similar to those shown in Exhibit D-3. He drew a distinction between instruments and equipment. Mr. Akeson's evidence was to the same effect as Mr. Hunt's. He had first heard a shade guide referred to as an instrument that morning. In reply to a question from a member of the Board whether in the dental profession there was a general understanding of what the term "dental instrument" meant, he stated that in their business it was an expression that was in common use and covered a wide scope but that until that morning he had never heard it used to cover this particular product. And he further stated that the catalogue, Exhibit D-3, showed numerous things that he had heard referred to as

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dental instruments: ninety per cent of the listings in the catalogue were dental instruments and the remaining ten per cent were sundry items.

Thus counsel for the appellant failed in his attempt to show that the term "dental instrument" had a particular meaning in the dental profession wide enough to include the appellant's shade guides.

Even if it be conceded that there may be some difficulty in determining whether a particular article, such as a shade guide is a dental instrument or a dental accessory or a dental supply the line must be drawn somewhere. The Tariff Board drew the line so as to exclude shade guides from the ambit of the term "dental instruments". In my judgment, there was ample material before it to warrant the finding that the shade guides imported by the appellant were not "dental instruments" within the meaning of the term in Tariff Item 476, quite apart from the fact that the appellant has not discharged the onus of showing that its shade guides were "dental instruments" within the meaning of Tariff Item 476.

On the evidence before me, I would have had no hesitation in dismissing the appeal from the declaration of the Tariff Board, if a right of appeal *de pleno* had been conferred by the *Customs Act*. It follows, *a fortiori*, that I find that there was no error as a matter of law in the declaration of the Tariff Board in the present case.

The question of law on which leave to appeal to this Court was granted must, therefore, be answered in the negative and the appeal herein must be dismissed with costs.

Judgment accordingly.

BETWEEN:

THE McPHAR ENGINEERING COM-
PANY OF CANADA LIMITED}

PLAINTIFF;

AND

SHARPE INSTRUMENTS LIMITED }
and SHARPE GEOPHYSICAL SUR- }
VEYS LIMITED

DEFENDANTS.

1954
Dec. 3-4,
6-9
1955
Jan. 12-14,
17-21
May 10-13,
16-20,
26-27, 30
1956
Jan. 9-13
16-20,
23-27,
30-31
Feb. 1-3,
8-10, 13-17
1960
Nov. 10

*Patents—Infringement—The Patent Act, 1935, S. of C., 1935, c. 32, s. 47—
Patent Act, R.S.C. 1952, c. 203, s. 48—Commercial success of invention
proof of utility—Statutory presumption of validity of patent—Onus of
showing patent invalid not easy to discharge—Charges of ambiguity
and avoidable obscurity permissible without pleading or particulars—
Infringement by taking substance of invention—Doctrine of equiva-
lency applicable only in respect of non-essential feature—Doctrine of
equivalency still in effect in Canada—Whether substance of invention
taken a question of fact—Whether particular feature of invention
essential a question of fact.*

The plaintiff sued for infringement of its rights under patent No. 484,515 for an invention relating to an electromagnetic induction ground prospecting method and apparatus for locating subterranean electrically conducting ore bodies through the use of an exploring primary alternating magnetic field and a detector to indicate spacial angle changes of the field due to the presence of a conducting ore body and the secondary alternating magnetic field set up by it. The plaintiff's transmitting unit consisted of a transmitter coil suspended from below the head block of a tripod so that it hung down freely to be orientable in azimuth and connected with a gasoline driven motor generator. The plaintiff's detector or receiving unit consisted of a receiver coil, with an amplifier and a pair of earphones attached to it, mounted on a pole described as its extended axis, its plane being horizontal, with a clinometer mounted on the pole near the top to enable the operator to measure any angles of deviation in the primary field due to the secondary field set up by a conductor ore body if it was present.

In order to provide the requisite magnetic field strength the equipment in use prior to the date of the invention was of such a heavy nature that it required five men to carry it. The invention covered by the patent resulted in an equipment that could provide the requisite magnetic field strength and be carried by two men. This was accomplished by the inventors by their discovery that they could control the frequency of the generator so that it would be substantially constant by operating it at a frequency below that of the transmitter coil with the result that they could use the maximum power of a small 1.2 horsepower motor and a transmitter that could be carried on the back. They discovered that they could effect the control by using the tuned transmitter coil as a resonant load imposed on the generator that was greater than the maximum power that the motor could supply to it. The resonant load was such that when there was a momentary increase in the power of the motor causing it to speed up the load imposed by the transmitter

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made it slow down to its normal speed and that when there was a momentary decrease in the power the load brought the speed of the motor back to its normal.

The inventors also found that if the transmitter coil was supported with its plane orientated towards the receiver coil and the pole on which the receiver coil was mounted was held in a vertical position so that the axis of the receiver coil was generally in line with the plane of the transmitter coil the risk of phantom or misleading readings by the operator of the receiver coil was reduced to a minimum and they devised a method of prospecting accordingly in which the alignment of the axis of the receiver coil with the plane of the transmitter coil was an essential feature.

In the statement of defence the defendants alleged that the claims in suit were invalid and denied infringement of them.

Held: That the plaintiff's invention has had considerable commercial success in Canada and various parts of the world.

2. That the evidence of the commercial success of the plaintiff's apparatus and prospecting method was convincing proof of their utility.
3. That there is a statutory presumption under section 47 of *The Patent Act, 1935*, of the validity of a patent granted under it and that the onus of showing its invalidity lies on the person attacking it, no matter what the ground of attack may be.
4. That a patentee need not prove the essential attributes of the patentability of the invention covered by his patent before he can succeed in an action for damages for infringement of his patent rights, for he starts with a statutory presumption of their existence in his favor and the onus of showing their non-existence lies on the alleged infringer.
5. That the onus of showing that a patent is invalid is not an easy one to discharge.
6. That the enactment of the statutory presumption of validity effected an important change in Canadian patent law and marked a substantial advance in the protection of a patentee's rights.
7. That the basic concept of control of the frequency of the generator by a load imposed on it by the transmitter coil was a novel one.
8. That a claim for an apparatus may be upheld although it is the operation of the apparatus that is really in issue and that the monopoly in an apparatus may be validly defined by reference to the result which it is to accomplish.
9. That Claim 8 extends only to motors of the size and weight that a person skilled in the art would be likely to use in connection with a transmitter coil that could be carried on a man's back and was tuned as specified in the Claim and that the Claim is not too wide.
10. That the invention defined in Claim 8 involved the exercise of inventive ingenuity.
11. That charges of ambiguity and avoidable obscurity may be made without any reference to them in the pleadings and without particulars.
12. That the term "frequency regulation" in Claim 8 was not ambiguous or avoidably obscure. Any person skilled in the art would know that, since the frequency of the generator could be controlled, it could be regulated and that if he constructed a transmitter coil so that it formed a resonant load for the generator and effected frequency regulation of it in such a way that the frequency was substantially constant, or that it differed from the determined value by an amount that was not appreciable, he would infringe the claim.

13. That the claims were not ambiguous or avoidably obscure by reason of the fact that they contained no reference to the need for the use of a low frequency or a definition of its range. A person skilled in the art would know that the use of a gasoline driven motor and a generator implied that the frequency emanating from it must be a low one and he would know its range.
14. That all the attacks on the validity of Claim 8 fail.
15. That the interpretation of documents is a matter for the Court and not for witnesses.
16. That the alignment feature of Claim 11 that the receiver coil should be "located generally in line with the plane of the transmitter coil" was not anticipated.
17. That it is not a correct approach to the determination of whether a claim is invalid to pick out an individual feature of the invention defined by it and contend that because it is not new or useful or does not involve the exercise of inventive ingenuity the claim is invalid. The alleged invention must be regarded as a whole.
18. That the use of the term "extended axis" in Claim 11 did not make it invalid for ambiguity. Any person skilled in the art would know the ambit of the term and there was no need for specifying it.
19. That all the attacks on the validity of Claim 11 fail and a similar finding applies to Claim 12.
20. That there is nothing to prevent an inventor from claiming less than his invention if that which he claims is itself an invention.

The defendants denied infringement of Claim 8 on the ground that in the transmitting unit claimed in it the transmitter coil was suspended from below the head block of a tripod "to hang freely in a vertical plane" so that its verticality was ensured by the force of gravity, whereas in the defendants' case the transmitter coil was bolted rigidly to a mast above a base plate and could not hang in a vertical plane until after the base plate had been made level by the use of a spirit level on it.

Held:

21. That, since the transmitter coil in the defendants' transmitting unit did not hang "freely", the means of its suspension did not come within the express terms of Claim 8.
22. That Claim 8 is not a claim for a means of suspension of a transmitter coil but for a transmitting unit in which the means of suspension of the transmitter coil is only an accessory that is neither new nor inventive.
23. That the issue in the case was whether the defendants' transmitting unit as a whole was substantially the same as the plaintiff's, notwithstanding the difference in the means of suspension of the transmitter coil.
24. That if a person takes the substance of an invention he is guilty of infringement, even if his act does not in every respect fall within the express terms of the claim defining it. *Clark v. Adie* (1875) 10 Ch. Ap. 667 at 675; (1876-7) 2 A.C. 315 at 320 applied.
25. That if a person takes the substance of an invention he is guilty of infringement and it does not matter whether he omits a feature that is not essential to it or substitutes an equivalent for it. *Marconi v. British Radio Telegraph and Telephone Company Ltd.* (1911) 28 R.P.C. 181 at 217 applied.

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26. That a plaintiff can resort to the doctrine of equivalency only in respect of a feature of the invention claimed by him that is not essential to it.
27. That the fact that an element in a combination is particularly described in a claim and differently from its description in another claim or other claims does not make it an essential element in the invention defined in the claims so as to oust the application of the doctrine of equivalency. *Submarine Signal Co. v. Henry Hughes & Son Ltd.* (1932) 49 R.P.C. 149 distinguished.
28. That the doctrine of equivalency is only a particular application of the general doctrine that a patent may be infringed by taking the substance of the invention covered by it.
29. That the doctrine of equivalency is still in effect in Canada and "available for utilization when the proper circumstances arise".
30. That the doctrine of equivalency is not antithetical to the modern concept of patent law, that its retention is still necessary to give inventors the protection against infringers to which they are entitled and that its abandonment would encourage piracy of inventions by taking their substance and omitting or varying some non-essential feature. *Graver Tank & Mfg. Co., Inc., et al. v. The Linde Air Products Company* (1950) 85 U.S.P.Q. 328 at 330 applied.
31. That in every case where it is sought to apply the doctrine of equivalency it must be determined whether the feature in respect of which it is sought to be applied is an essential one.
32. That the determination of the essence of an invention is not to be made exclusively and solely "on an examination of the language used by the patentee in formulating his claims", without resort to any other aid and without regard to the facts. *R. C. Photophone, Ltd. v. Gaumont-British Picture Corporation Ltd. and British Acoustic Films, Ltd.* (1936) 53 R.P.C. 167 at 197, disapproved.
33. That in order to ascertain the essential features of an invention the specification must be read and interpreted by the light of what was generally known at the date of the patent. *Marconi v. British Radio Telegraph and Telephone Company Ltd.* (1911) 28 R.P.C. 181 at 218 applied.
34. That the inclusion of a particular feature of an invention in a claim does not necessarily make it an essential one so as to exclude the application of the doctrine of equivalency.
35. That the question whether the substance of an invention has been taken is one of fact.
36. That the question whether a particular feature of an invention is essential to it is one of fact.
37. That the feature of the invention defined in Claim 8 referred to as "means to suspend said transmitting coil to hang freely in a vertical plane but orientable in azimuth" was not an essential one, that it was merely an accessory which could be replaced by a mechanical equivalent without making any difference to the invention, that the means of suspending the transmitting coil in the defendants' transmitting unit was a mechanical equivalent of it and that the defendants had taken the substance of the invention defined in the claim and infringed it.
38. That the second named defendant infringed the plaintiff's rights under Claims 11 and 12.

ACTION for infringement of patent.

The action was tried before the President of the Court at Toronto and Ottawa.

Harold G. Fox, Q.C., and *Douglas S. Johnson* for plaintiff.

Christopher Robinson, Q.C., and *Roy H. Saffrey* for defendants.

The facts and questions of law raised are stated in the reasons for judgment.

THE PRESIDENT now (November 10, 1960) delivered the following judgment:

This is an action for infringement of the plaintiff's rights under Letters Patent No. 484,515, dated July 1, 1952, and issued to it as the assignee of George H. McLaughlin and William A. Robinson, the alleged inventors, the date of the application being May 28, 1949.

The opening paragraph of the patent specification states that the invention in suit "relates to a prospecting method and apparatus for locating subterranean conducting materials through the use of an exploring alternating magnetic field and a detector to indicate spacial angle changes of the magnetic field due to the presence of a conductor."

The art to which the invention relates is that of electromagnetic induction prospecting for subterranean electrically conductive ore bodies and more particularly the branch that is concerned with ground prospecting for such bodies. The purpose of the art is to enable prospectors to discover the existence and determine the location and extent of underground ore bodies of such valuable conductors of electricity as copper, nickel, silver and the like. It involves the application of certain principles of geophysics and requires the use of equipment consisting of a transmitting unit and a detector or receiving unit, each with its appropriate elements and attachments.

In the plaintiffs' case the transmitting unit consists of a transmitter coil suspended from below the head block of a tripod so that it hangs down freely to be orientable in azimuth and connected with a gasoline driven motor generator and the detector or receiving unit consists of a receiver coil, with an amplifier and a pair of ear phones attached to it, mounted on a pole. The pole is described as the extended

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axis of the receiver coil, its plane being horizontal. A clinometer is mounted on the pole near its top. In the art the transmitter coil is sometimes called the loop and the receiver coil the detector or search coil, but in these reasons the terms transmitter coil and receiver coil will generally be used.

The theory underlying the electromagnetic induction method of ground prospecting may, for the purpose of this case, be stated briefly in general terms. When the transmitter coil has been located in the area to be prospected and energized by operating the motor it sets up a primary alternating magnetic field in space with magnetic lines of force emanating from it. If an underground electrically conductive ore body is present in the area some of these lines of force pass through it or, to use the term of the art, cut it and thereby generate a voltage in it and induce an electric current to flow through it so that it sets up a secondary alternating magnetic field in space with magnetic lines of force emanating from it. The conductor ore body, hereinafter called simply the conductor, is an anomaly in the earth and its presence creates a disturbance in the primary magnetic field set up by the transmitter coil and causes a deviation in it from that which would be expected in the absence of a conductor. It is possible for the operator of the receiver coil to discover the presence of a conductor in the area, if it exists, and to determine its location and extent by a series of measurements at various points, called stations, and the application and use of certain principles well known to persons skilled in the art.

When the direction lines of force emanating from an alternating magnetic field is such that they cut a receiver coil they generate a voltage in it which induces a current to flow through it so that it creates a sound in the ear phones attached to it. If the lines of force are parallel to the axis of the receiver coil and, therefore, perpendicular to its plane the maximum number of lines of force cut the receiver coil, the maximum amount of voltage is generated in it, the maximum amount of current is created and the maximum sound results in the ear phones. If the axis of the receiver coil is turned slightly so that the lines of force are not parallel to the axis fewer lines cut the coil, less voltage is generated in it, less current flows through it and the sound created in the ear phones is less audible. Finally, if the axis

of the receiver coil is turned so that the lines of force are perpendicular to the axis and, therefore, parallel to its plane, no lines of force cut the coil, no voltage is generated in it, no current flows through it and there is no sound in the ear phones.

Consequently, if the operator of the receiver coil holds the pole on which it is mounted in a vertical position and generally in line with the plane of the transmitter coil, so that the axis of the receiver coil is perpendicular to the direction of the lines of force emanating from the transmitter coil and he does not hear any sound in the ear phones he may conclude, subject to what I shall point out later, that there is no conductor in the vicinity. If he finds the same situation at other stations he knows that there is no conductor in the area.

But if he does hear a sound in the ear phones when he holds the pole in the same position as that already described he knows that some lines of force are cutting the coil and that, consequently, their direction is not perpendicular to the axis of the coil, from which he concludes that there has been a disturbance in the magnetic field emanating from the transmitter coil causing a deviation in the direction of its lines of force from that which would have been normally expected and that this has been caused by a conductor in the vicinity. While he knows that such a body is present he does not know its direction. He then rocks the receiver coil on its extended axis from side to side until he finds the position at which there is a nil or minimum sound in the ear phones. He knows that now the axis of the coil is perpendicular to the lines of force emanating from the disturbed magnetic field and is able to tell their direction and, consequently, that of the conductor. He looks at the clinometer on the pole and notes the angle of declination of the extended axis from the vertical which tells him that the line of declination points in the direction of the conductor. If the angle of declination is to his left the conductor is to his right and *vice versa*.

When the magnetic lines of force emanating from the transmitter coil cut the conductor, they generate a voltage in it and induce a current to flow through it so that in setting up its secondary magnetic field it operates as if it were a transmitter coil. The two magnetic fields combine to produce, in effect, a single magnetic field and the angle noted by the operator of the receiver coil when he has found the

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position of nil or minimum sound is the resultant angle of the angles of declination from the vertical of the vectors of the lines of force of the primary and secondary magnetic fields respectively.

The method of prospecting used by the plaintiff was described in detail by Mr. Cartier, the plaintiff's vice-president, but a brief outline of it will suffice. In the area to be prospected the operator of the transmitter coil set it up at a given spot and connected it with the motor generator. Then a base line up to 1,000 feet was cut from south to north. At its end a traverse line of 800 feet on each side of it was cut. This was chained and pickets placed at 100 foot intervals. These marked the stations at which readings were made by the operator of the receiver coil. Before a reading was taken at a station, the operator of the transmitter coil orientated it to the receiver coil and the operator of the receiver coil held the pole on which it was mounted in a vertical position on the ground so that the extended axis of the coil, namely, the pole, was generally in line with the plane of the transmitter coil. Then the operator of the transmitter coil turned on the motor and the operator of the receiver coil turned on the amplifier, put on the ear phones and listened for a signal. If at the first station, which was on the base line, he did not hear any sound he concluded that there was no conductor in the vicinity and moved to the second station. If he did not hear any sound when he was at this station he knew that there was no conductor near him. But if he did hear a sound he concluded, for reasons that I have already indicated, that a conductor was present in the area. He then rocked the pole from side to side thereby swinging the receiver coil on its extended axis until he found the position of nil or minimum sound. He then looked at the clinometer to ascertain the angle of deviation of the extended axis from the vertical and recorded this angle as his reading at that station. If the angle was to his left this told him that the conductor was to his right. If, at the third station, having found a conductor when he was at the second station, he did not hear any sound in the ear phones he knew that he was directly over the conductor. Here I interrupt the outline of the plaintiff's method to set out the explanation of this phenomenon, as given by junior counsel for the plaintiff, namely, that in this situation the axis of the receiver coil was in the plane of the transmitter

coil and also in the plane of the conductor and the direction of the lines of force emanating from the combined magnetic field was parallel to the plane of the receiver coil and did not cut it and that, consequently, there was no sound in the ear phones. But if, at the third station, the operator of the receiving coil did hear a sound he again rocked the receiver coil on its extended axis until he found the position of nil or minimum sound. If the angle of deviation of the extended axis from the vertical, as ascertained from the clinometer, was now to his right he knew that the conductor was to his left, which meant that it was somewhere between the second and third stations. On the other hand, if the angle was still to his left he knew that he was still on the same side of the conductor ore body as he had been at the second station, namely, that it was to his right, but, of course, nearer to him. This procedure was continued until there were sufficient readings to indicate the east and west limits of the conductor. A similar procedure was followed to ascertain the north and south limits. It was important that before any reading was taken the transmitter coil should be orientated so that its plane contained the receiver coil and that the axis of the receiver coil should be generally in line with the plane of the transmitter coil.

The patent specification contains 71 paragraphs of disclosures and 11 figures and ends with 12 claims of which only Claims 8, 11 and 12 are in suit. These read as follows:

8. A transmitting unit for an electromagnetic clinometer apparatus comprising a motor-driven alternating current generator, a tuned air core transmitting coil of a size to be carried on the back connectable with said generator to form a resonant load for said generator acting to effect frequency regulation thereof, and means to suspend said transmitting coil to hang freely in a vertical plane but orientable in azimuth.

11. A method of prospecting for conductor materials consisting in creating a low frequency alternating magnetic field by means of a transmitting coil suspended to hang vertically and orientable in azimuth and detecting any spacial angle of change of the magnetic field due to the disturbing influence of a conductor material by swinging a search coil located generally in line with the plane of the transmitting coil on an extended axis, and noting the angular position of the axis of said search coil relative to the perpendicular for minimum search coil signal.

12. A method as claimed in claim 11 in which said transmitting coil is energized to provide an audio-frequency magnetic field.

It will be seen that two inventions are claimed, one for the apparatus defined in Claim 8 and the other for the method defined in Claims 11 and 12.

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In the statement of defence several objections were taken to the claims in suit, it being alleged that they are invalid, and infringement of the plaintiff's rights under them, if any, was denied.

Evidence on behalf of the plaintiff was given by Mr. W. O. Cartier, to whom I have already referred, Mr. W. A. Robinson, one of the alleged inventors, who at the date of the invention was the plaintiff's general manager, and Mr. C. E. Doeringer, a lecturer in the Department of Electrical Engineering at the University of Toronto. The witnesses for the defendants were Mr. Hans Lundberg, a practising exploration geophysicist, Dr. H. Watson, the Associate Professor of Physics at the University of McGill, Dr. H. O. Seigel, a consultant in mining geophysics, and Mr. G. Mounce, a professional engineer.

The trial of this action took a total of 54 days, making it the longest patent action trial in the history of this Court. It raised several issues of importance and difficulty and it was essential to a proper understanding of them that consideration should be given to such matters as the state of the prior art and its defects, the objectives sought to be accomplished by the inventors, the problems that confronted them and the circumstances of their solution. And the issue of infringement raised questions of the utmost importance in patent law. But, while I realize the importance and difficulty of the issues and appreciate that it is much easier to see how the trial of a patent action could have been shortened after it has been concluded than it would have been to decide how it could be shortened, either before it began or during its course, I must say, after a review of the transcript of the evidence which took 26 days and consideration of the argument of counsel which took 28 days, that, in my opinion, the trial took an inordinately long time.

There was considerable evidence relating to the state of the prior art. Early prospecting for minerals was of the pick and shovel and drilling type. But it had long been realized that bodies of magnetic ore lying below the surface of the earth caused deviation in the lines of magnetic force emanating from it. In the early days of the war efforts were made to perfect a magnetometer for the purpose of locating submerged submarines which could be mounted in an aeroplane and used to measure the magnetic intensity of the

field over which it was passing and any deviation in it. The advance of radar brought these efforts to an end but the idea of locating magnetic bodies was applied to prospecting for minerals. It seemed obvious that if a magnetometer could detect the presence of a mass of metal such as a submerged submarine by detecting changes in the magnetic intensity of a particular area of the sea it could be equally useful in detecting the presence of magnetic ore bodies below the surface of the earth. Thus it followed that magnetometers were adapted for use in or attached to an aeroplane for aerial prospecting for minerals.

There was also a type of equipment, other than that of a magnetometer, which was used for the purpose of detecting electrically conductive ore bodies below the earth surface such as, for example, the equipment described in the patent in suit.

Several methods of ground prospecting for electrically conductive ore bodies were described in the evidence. One of these was called the electrode or resistivity method. Two iron stakes, which operated as electrodes, were driven into the ground a considerable distance apart and connected with a motor generator which passed a low frequency alternating current between them thus setting up an electric field in the intervening ground. The effect of this was measured by a second pair of electrodes and if the resulting measurement showed a low voltage the presence of a conductor was indicated. There were several disadvantages in the use of this method. One was that it was difficult to use in the winter when the ground was frozen and covered with ice since this formed a non-conducting layer over the ground, a second, that it was difficult to employ where there was not a soil overburden over the rock and the third, that it did not lend itself to use from the air. This method has a limited use. Another method was called the self-potential method. It did not require any current from a motor generator but made use of the natural current in the ground created by the presence of a conductor. It was carried out by using porous ceramic pots containing a saturated copper sulphide solution, pressing the pots into the ground about 100 feet apart and measuring the voltage generated between them. This method is used only to a limited extent.

There was some question whether the resistivity and self potential methods could properly be called electromagnetic

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methods but this need not be determined for they were quite different from the electromagnetic induction method that I have described. There were two embodiments of it, in one of which a horizontal transmitter coil, which might be up to a mile in diameter, was laid on the ground with the receiver coil within the area surrounded by it and in the other the transmitter coil was set up vertically with the receiver coil some distance from it.

The use of the horizontal transmitter coil was subject to serious disadvantages. Its length, even with the use of fine wire, raised a problem of portability for it required two men to carry it and it was difficult to lay it out in swampy or rough, rocky country. Moreover, if the terrain was hilly the coil would be partly horizontal, partly sloping and partly vertical which led to error in the readings made by the operator of the receiver coil. Finally, the horizontal coil was not made up but had to be re-arranged from time to time. There were also difficulties in measuring the effect of the secondary magnetic field set up by a conductor in the case of certain formations such as the argillaceous quartzite referred to by Mr. Lundberg. The disadvantages involved in the use of the horizontal transmitter coil, notwithstanding the large area covered by it, were so great that it passed out of use. By 1949 it was not used at all.

The vertical transmitter coil had an advantage over the horizontal one in that it was made up, that is to say, the frame on which it was to be wound could be collapsed and easily set up and the coil wound around it but it had disadvantages. It was not possible to work inside it and the strength of the magnetic field set up by it was not as great as in the case of the horizontal transmitter coil.

There were two kinds of vertical transmitter coils, one operating at high frequencies and the other at low ones. In the early days of the art it was not known that the difference between high and low frequencies was one of kind rather than of degree. It was not realized until after the date of the invention that the magnetic field set up by a high frequency vertical transmitter coil was a wave or travelling field, whereas that set up by a low frequency one was stationary. Several of the witnesses spoke of the two kinds of frequencies as being "different animals".

The terms "low" and "high", when applied to frequencies, must be related to the arts in which they are used. For

example, 25 cycles per second is a low frequency in the case of power transmission and any frequency over 100 cycles is high. On the other hand, in the case of radio transmission anything under 200,000 cycles is low. In the art with which this case is concerned the audio frequency range, that is to say, the range of frequencies that would result in sound that a person could hear through the earphones attached to the receiver coil, is from 20 cycles per second up to 12,000 cycles and even as high as 20,000 cycles. Low frequency is any frequency up to 2,000 cycles or, as Dr. Watson put it, any frequency from 300 cycles per second up to 3,000 cycles. Certainly, a frequency of 1,000 cycles per second, which was that at which the plaintiff's generator operated, was clearly a low frequency.

But whether a high or a low frequency was used the electromagnetic induction method of prospecting was subject to the serious defect that it gave misleading information. The readings taken by the operator of the receiver coil were frequently "phantom readings". This term was used in two senses, one meaning readings indicating the presence of a conductor when no conductor was actually present and the other readings indicating that valuable conductor ore bodies were present when all that was actually present was useless material such as wet clay, muskeg, swampy ground, graphite or powdered rock, which gave indications similar to those that a valuable conductor would have given. This was particularly true when a high frequency vertical transmitter coil was used. It had the advantage of portability since a small coil could be used with a battery but the phantom readings made its use of little value. Efforts were made to overcome the defect of such readings by turning from high to low frequencies. It was found that with low frequencies there were no responses from wet clay unless the frequencies were higher than 5,000 cycles per second. To that extent, there was a gain in accuracy to offset the loss in field strength. Claims verging on the miraculous were made for the method but the efforts to overcome the defect of phantom readings failed. Mr. Lundberg stated that in the boom days of 1926-1928 thousands of indications of ore bodies were obtained by the use of the vertical coil operating at a low frequency but drilling did not disclose any ore. This was a sad experience for prospectors, mine owners and mining claim owners with the result that the use of the vertical

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coil was abandoned about 1928 and not revived until about 1945. Mr. Cartier confirmed this evidence. He stated that large sums had been spent on the basis of reports of prospectors only to find that they were untrue. In the result the whole electromagnetic induction method, whether the transmitter coil that was used was horizontal or vertical and whether it was operated at high or low frequencies, fell into complete disrepute and was not used at all in the period from 1930 to about 1945 when it was revived, as will appear later.

In addition to the problem of phantom readings which baffled the art, there was also the problem of frequency instability in the case of vertical transmitter coils operating at a low frequency. Variation in the frequency of the generator was due to several causes including changes in the condition of the atmosphere due to changes in temperature. This was a particularly important factor in the winter-time. It was recognized in the art that stability of the frequency of the generator was essential to the proper working of the electromagnetic induction method of prospecting and that variations in the frequency caused serious difficulties. One of these was the dissipation of power due to the fact that the transmitter coil set up a magnetic field not only at the frequency to which the receiver coil was tuned but also at other frequencies to which it was not tuned. Moreover, the deleterious effects of wandering frequencies was aggravated by the production of side bands and harmonics, with the result that the transmitter coil was not able to induce a usable current in the receiver coil and cause the desired sound in the ear-phones attached to it. The signal in them would fade or blare or wander, all of which made it difficult for the operator of the receiver coil to determine the position of nil or minimum sound and make reliable readings. Various efforts were made, prior to the date of the invention in suit, to eliminate the harmful effects of variations in frequency, such as by the use of filters, but they had not succeeded.

The events leading to the discovery of the invention in suit and the circumstances under which it was made were described by Mr. Cartier. Late in 1946 he was approached by Dr. A. Brant, Professor of Geophysics at the University of Toronto, and Dr. C. S. Davidson, a consulting engineer for Ventures Limited and its associates, with a view to hav-

ing their prospecting equipment adapted for use in an aircraft. The equipment, referred to in the evidence as the Davidson-Brant equipment, had been devised by Mr. Robinson and Mr. McLaughlin, who were at the time engineers in the plaintiff's employ. It was being used in the Sudbury area and it was later used in the vicinity of Noranda and in a mobile form for use on ice in the vicinity of Flin Flon. Its use marked the first revival of the electromagnetic induction method of prospecting since its abandonment in about 1930. The equipment was turned over to Mr. Cartier at Sudbury and he and his associates, Mr. Robinson and Mr. McLaughlin, spent about two years experimenting with it. They found it reasonably satisfactory in the Sudbury area where it could be put on a truck and carried to the place where it was to be used, but its large size made it unsatisfactory for use in an aircraft and the effort to adapt it for such use was abandoned about the end of 1948.

Mr. Cartier and his associates then turned their attention towards perfecting the equipment for use on the ground. As a matter of fact its use marked the culmination of the art as it stood immediately prior to the date of the invention in suit.

While the equipment was reasonably satisfactory in locating valuable conductors it gave some phantom readings but its greatest drawback was its large size and consequent lack of portability. Its transmitter coil was in the form of an equilateral triangle, each side being about twenty-five feet in length, with its apex mounted on a vertical pole held in position by guide ropes and its total weight was approximately 100 pounds. The electrical current required to energize it was supplied by a generator driven by a gasoline motor of from 4 to 5 horsepower. The motor generator set weighed about 160 pounds. The receiver coil was approximately two feet in diameter and mounted on a tripod. There was also a small clinometer. The weight of the receiving unit came to about 40 pounds. The equipment required five men to operate it, two to carry the motor generator set, two to carry the transmitter coil and its attachments and one to carry the receiver coil and the rest of the equipment.

The difficulty involved in the use of this heavy equipment led Mr. Cartier and his associates to an attempt to devise an equipment that could be carried by two men and at the same time ensure frequency stability and provide adequate

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field strength. With this purpose in mind Mr. Cartier experimented with a small 1.2 horsepower motor weighing about 20 pounds but he found it impossible to regulate the frequency with the necessary stability. In his experiments with the small motor he designed the transmitter coil so that at resonance, that is to say, when it was tuned to the exact frequency of the generator, it would absorb the power supplied by the motor. In other words, he sought to match the load imposed by the transmitter coil to the power supplied by the motor. This was in accordance with the teaching of the art at the time. Mr. Cartier's efforts failed. When he operated the motor generator at the desired frequency of 1,000 cycles per second and tuned the transmitter coil to resonance at 1,000 cycles he found that the motor ran away with resulting frequency instability. He found that he could not get the same stability of frequency from the small motor as he could obtain from the large one with which he had previously been working. With it he could effect reasonable frequency stability by using a governor and throttling the engine down below the maximum power that it could deliver. But the use of a governor for the small motor was valueless. It reduced the power of the motor so that it could not provide adequate field strength and it did not enable the motor to accommodate itself to temperature changes.

Mr. Cartier finally concluded that the problems with which he was confronted were insoluble. It seemed impossible to devise an equipment that was portable and at the same time capable of ensuring frequency stability, adjusting itself to changes in temperature and providing adequate field strength. Having reached this conclusion Mr. Cartier decided to continue his efforts to improve the equipment that used the large motor.

But Mr. Robinson and Mr. McLaughlin continued to struggle with the problems that had baffled Mr. Cartier. They repeated his experiments and found, as he had done, that when they tuned the transmitter coil so that it was resonant at 1,000 cycles per second and then energized it with the motor generator set at 1,000 cycles the motor ran away and, despite what they did with the governor, it would not hold. They then discovered that they could control the frequency of the generator so that it would be substantially constant and use the maximum power of the small 1.2 horsepower motor by operating the generator at a frequency

below that of the transmitter coil. This led them to the idea that they could use the transmitter coil as a load to control the frequency of the generator by imposing a load on it that was greater than the power that the motor could supply. To put it briefly, they discovered that they could ensure the stability of the frequency of the generator by load control of it imposed by the transmitter coil.

Mr. Robinson was unable to state precisely when the idea of load control of the frequency of the generator by the transmitter coil was conceived by Mr. McLaughlin and himself or state the circumstances under which it was conceived or who had the idea first. They were working together and the thinking of one reacted on that of the other. In my opinion, it does not matter precisely when or how the concept came. The important thing is that it did come.

After the inventors had conceived the idea that they could control the frequency of the generator and regulate it so that it was substantially constant by using the transmitter coil as a load imposed on the generator that was greater than the maximum power that the motor could supply to the generator they began to think of it in terms of power and load curves. A great deal of evidence was directed to this topic. The final representation of the working of the idea was shown in Figure 7 of the drawings accompanying the patent specification and, in greater detail, in a graph, filed as Exhibit 8. These showed two curves, one being the brake horsepower curve, representing the power supplied by the motor to the generator, and the other the load curve, representing the load imposed on the generator by the transmitter coil. The load curve was of a sharply rising character with the brake horsepower curve intersecting it at a steeply rising part below its apex. Figure 7 and Exhibit 8 illustrate the operation of the motor generator and the kind of load imposed on the generator by the transmitter coil. They show that the load curve intersects the brake horsepower curve at a point sufficiently below the apex of the load curve, representing the resonant frequency of the series tuned resonant circuit of the transmitter coil and, therefore, the point at which it was capable of absorbing its maximum power, that any momentary increase in the power of the motor above its normal maximum could not drive it above the apex. Put otherwise, Figure 7 and Exhibit 8 show that the load imposed on the generator by

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the transmitter coil was of such a sharply rising character that the maximum power of the motor, including any momentary increase in it, could not overcome it.

It was only after the inventors had conceived the idea of load control of the frequency of the generator by the transmitter coil that they were able to illustrate the operation by which it was to be carried into effect in terms of curves and determine the kind of load to be imposed on the generator by the transmitter coil. It had to be a peaked load of a sharply rising character such as that represented by the load curve shown in Figure 7 and Exhibit 8.

When the inventors had conceived their idea and understood the relationship of the brake horsepower curve and the load curve, as exemplified by Figure 7 and Exhibit 8, they designed the transmitter coil so that it would impose a load on the generator of the kind represented by the load curve shown in Figure 7 and Exhibit 8. They had found that a transmitter coil with a series tuned resonant circuit would serve the desired purpose and they designed a transmitter coil with such a circuit. It was essential that it should be able to absorb more power than the motor could supply to the generator in order that it could impose a load on the generator that was greater than the maximum power of the motor, including momentary increases in it above the normal. Consequently, the load must be such that when it was represented by a load curve the apex of the load curve would be above the brake horsepower curve. In order to accomplish the desired purpose the inventors decreased the resistance of the transmitter coil and increased the size of the wire in it. They also added condensers to it to make it resonate at from 20 to 25 cycles per second above the intended operation of the generator at about 1,000 cycles, at which point the motor could deliver its maximum normal power to the generator. The current in the transmitter coil when thus designed was about the same as in the first transmitter coil that the inventors had used, and the field strength provided by it was also about the same. When the newly designed transmitter coil was connected with the generator and energized by it the result was satisfactory. The motor did not run away and frequency stability within the limits of plus or minus one and a half per cent was achieved. It was now possible to utilize the power of the small motor without a governor. It was not necessary, or

even useful, and could be thrown away. The problem of regulating the frequency of the generator of the small motor so that it was substantially constant was solved.

It is not necessary to explain in detail the manner in which the load imposed by the transmitter coil on the generator effected regulation of its frequency. The undisputed fact is that it did so. It will be sufficient to say that when there was a momentary increase in the power of the motor causing it to speed up the load imposed by the transmitter coil made it slow down to its normal speed and that when there was a momentary decrease in the power the load brought it back. I should also add that it was recognized in the art that in order to make the best use of a tuned transmitter coil, that is to say, to get the maximum current in it, the motor generator should operate or energize it at its resonance, represented by the apex of the load curve shown in Figure 7 and Exhibit 8, but to do this was to operate the motor generator at its maximum frequency instability. Consequently, the operation of the motor generator at 1,000 cycles per second and arranging the transmitter coil so that at resonance its frequency was 20 to 25 cycles higher involved some sacrifice of field strength but, as already stated, frequency stability was achieved.

The achievement of frequency stability of the generator made the solution of the problem of portability simple. The heaviest part of the previous equipment, namely, the Davidson-Brant equipment, was the motor generator set. As already stated, it weighed about 160 pounds. It had to be carried on two shafts like a stretcher, and required two men to carry it, one in front and the other behind. Its weight made it difficult to carry in the bush and over rocky ground. The inventors used a small 1.2 horsepower motor generator set that could be mounted on a pack board and carried on a man's back with an acceptable weight, including that of the packboard, of not more than 60 pounds.

When the inventors designed the transmitter coil in the manner described the increase in the size of the wire in it increased its weight but there was some compensation for this in the reduced weight of the form. Later it was possible with some adjustments and better condensers to increase the resistance of the coil and reduce the size of the wire in it thus lessening its weight. It was also possible to decrease the size and weight of the transmitter coil by improving the

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receiver coil. Anything that increased its sensitivity, such as the use of a magnetic core, tuning and mounting of the clinometer, made for the decrease in the size and weight of the transmitter coil. The size of the new coil was about the same as that of the first one and its weight was from 25 to 30 pounds as compared with the weight of the transmitter coil of the Davidson-Brant equipment of about 100 pounds.

Two larger transmitter coils are made by the plaintiff, the smaller one being almost triangular in shape with about 15 feet to the side and weighing about 60 pounds, and the other being larger and weighing well over 100 pounds. These larger coils are used for special purposes, the largest one being seldom used.

All that remained to be considered was the receiving equipment. The receiver coil was reduced in size and weight and a magnetic core was used. This helped to reduce the size of the coil and give better operation but its use was not essential. The receiver coil was mounted on a pole instead of on a tripod thus permitting greater accuracy in the determination of the nil or minimum sound in the earphones by reason of the wide arc in which the coil could be swung on the pole which served as its extended axis. A clinometer for indicating the angle of declination of the pole from the vertical when the position of nil or minimum sound was found was mounted on the pole at eye level, which made for greater accuracy in determining and recording the angle than had previously been possible. The problem of portability of the equipment was now solved.

The inventors had been faced with four considerations in their attempt to solve their problems. It was essential, in the first place, that there should be frequency stability so that the range of variation of frequency should be reduced to a minimum. Secondly, it was desirable that the motor should deliver its maximum power so that the smallest motor and, therefore, the one of least weight that would be effective could be used. It was also desirable that the equipment should automatically accommodate itself to changes resulting from weather conditions. And, finally, it was desirable that the equipment should be able to provide adequate field strength. All of these objectives were achieved.

It was now possible for the first time to use a prospecting equipment that could be carried by two men working in the type of terrain in which prospecting was usually done

and was at the same time capable of performing effectively the functions for which it had been devised, namely, ensuring frequency stability, accommodating itself to changes in temperature and providing adequate field strength. In my opinion, the inventors made an important invention.

While the difficulties resulting from frequency variation were substantially overcome by the inventors after they had discovered that they could effect frequency regulation of the generator so that it was substantially constant by load control imposed by the transmitter coil in the manner described, the inventors realized that if the electro-magnetic induction method was to recover from the disrepute into which it had fallen prior to 1930 it was necessary to solve the problem of the misleading readings that had caused the sad experience to which Mr. Lundberg referred and they set themselves to the task of devising a prospecting method that would substantially eliminate them. Some of these misleading readings were due to elevational errors and others were phantom readings. Prior to the date of the invention defined in Claim 11 the cause of phantom readings was not known. It had been realized that the use of high frequencies was productive of them for with their use almost anything was a conductor and a switch to the use of low frequencies was made but, while there was some improvement, as I have already indicated, in the case of wet clay, the use of low frequency, even when so regulated that it was substantially constant, did not solve the problem. Something more was necessary.

Eventually, the inventors found that if the transmitter coil was orientated towards the receiver coil so that its plane contained it and the pole on which the receiver coil was mounted, serving as its extended axis, was held in a vertical position so that the axis of the receiver coil was generally in line with the plane of the transmitter coil the risk of phantom readings by the operator of the receiver coil was reduced to a minimum and they devised a method of prospecting accordingly, in which the alignment of the axis of the receiver coil with the plane of the transmitter coil was an essential feature.

The evidence of Mr. Robinson and Mr. Cartier establishes that when this alignment was maintained the phantom readings were substantially eliminated. This fact is con-

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firmed by the defendant's own Booklet C, filed as Exhibit 4, describing its prospecting method in which a similar alignment is featured.

In view of this evidence it is, strictly speaking, unnecessary to explain why the maintenance of this alignment had such an effect, but the explanation put forward on the plaintiff's behalf will not be amiss. It has been stated earlier in these reasons that when the receiver coil is orientated towards the transmitter coil so that its axis is generally in line with the plane of the transmitter coil and there is no conductor in the area, the magnetic lines of force emanating from the transmitter coil are perpendicular to the axis of the receiver coil and, consequently, do not cut it with the result that no voltage is generated in it, no current flows through it and there is no audible sound in the ear phones attached to it and that, consequently, the operator of the receiver coil concludes that a conductor is not present and makes what is called a zero reading. If he maintains the alignment referred to he will make a similar zero reading even if a useless conductor such as wet clay or swampy ground is present in the area and under the transmitter coil. The reason for this may be stated briefly. The magnetic lines of force emanating from the transmitter coil cut the conductor both when going down and when coming up generating a positive voltage in it when going down and a negative one when coming up. The plane of the transmitter coil is exactly in between the direction of the lines of force going down and that of those coming up and the voltages generated in the conductor on each side of the plane cause currents to flow in it and set up secondary magnetic fields on each side of the plane with magnetic lines of force emanating from each as if there were a transmitter coil on each side of the plane. Since the wet clay or swampy ground conductor is symmetrical, that is to say, of the same nature on one side of the plane as on the other, the currents on each side are equal and since the voltages creating them are opposite the effect of the secondary field from one side of the conductor on the primary field set up by the transmitter coil is nullified by that of the secondary field from the other side of the conductor. The result is that they cancel out in the sense that no sound is created in the ear phones and the effect is the same as if no conductor were present. Consequently, the operator of the receiver coil makes a zero reading instead of a phantom one.

It is true that there would be the same result if a valuable conductor that is precisely symmetrical were present but that is unlikely. Consequently, if a reading indicates the presence of a conductor the likelihood is that it is a valuable one. Moreover, when readings are taken at several stations the chances of any one body being symmetrical so that the secondary fields set up on each side of the plane of the transmitter coil cancel out at the receiver coil are remote. There is also the fact that a valuable conductor sets up a stronger secondary magnetic field than a poor conductor does.

Thus the inventors found that one of the reasons for the phantom readings in the prior art was the failure to orientate the receiver coil so that its axis was generally in line with the plane of the transmitter coil. In that case the situation was that while the voltages generated in the conductor on each side of the plane of the transmitter coil were opposite the currents caused by them and the resulting secondary magnetic fields were not equal with the result that they did not cancel out at the receiver coil and its operator would be led to make a reading showing the presence of a valuable conductor when only a valueless conductor was present.

The inventors also found that orientation of the receiver coil in the line of the plane of the transmitter coil did not eliminate phantom readings if high frequencies were used. Consequently, they concluded that it was necessary, not only to use a low frequency, but also to align the transmitter coil and the receiver coil so that the axis of the latter was generally in line with the plane of the former.

The inventors also found that if they maintained this alignment they eliminated not only phantom readings but also elevational errors, which had commonly occurred in the previous art when the transmitter coil and the receiver coil were not on the same levels. Indeed, prior to the date of the invention it was not clear whether the misleading readings that occurred were phantom readings or were due to elevational errors. Mr. Cartier's evidence was that they were tied together.

The inventors were also concerned with increasing the efficiency of the receiving unit of their prospecting method and several improvements in it were made but we are concerned only with the one referred to in Claim 11, namely,

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that the receiver coil should be mounted on a pole so that the pole was an extension of its axis, which made it possible to place the bottom end on the ground and swing the receiver coil on what was called its extended axis from side to side over a wide arc. Then a clinometer was placed on the pole at eye level. The improvement in the receiver coil thus referred to led to efficiency of its operation for the wide swinging of the receiver coil on its extended axis enabled its operator to determine the position at which there was a minimum or nil sound in the ear phones attached to the receiver coil with greater ease and accuracy than previously and the placing of the clinometer at eye level helped him to note with greater precision than previously the angle of declination from the vertical of the extended axis of the receiver coil when the position of minimum or nil sound had been determined. Consequently, it was no longer necessary as it had been previously under other methods, to measure the intensity of the magnetic field or to make composite measurements, one angle being sufficient for each reading, or to use a radiograph.

Thus the plaintiff's method of prospecting, as defined in Claim 11, had the advantages of correcting elevational errors and substantially eliminating phantom readings and ensuring more rapid and reliable readings than had previously been possible. In my opinion, it was an important invention.

Here I might add that Claim 12 defines the method set out in Claim 11 with the limitation that the frequency to be used is in the audio-frequency range, which, as I have already stated, runs from 20 cycles per second up to 12,000 cycles, and even as high as 20,000 cycles.

The plaintiff's invention, whether of its apparatus or of its prospecting method, has had considerable commercial success. It is, of course, established law that evidence of the commercial success of the subject of a patent is admissible, but it should be pointed out that by reason of the presumption of validity of a patent enacted by section 47 of *The Patent Act*, 1935, Statutes of Canada, 1935, Chapter 32, now section 48 of the *Patent Act*, R.S.C. 1952, Chapter 203, evidence of commercial success is not as important in Canada as in countries, such as the United Kingdom, where there is no similar statutory presumption. Under the circumstances, I shall make only a brief reference to the evi-

dence of commercial success in the present case. The use of the plaintiff's equipment has been widespread. It has been sold to the leading mining companies in Canada such as the International Nickel Company and the Consolidated Mining and Smelting Company. The equipment and the prospecting method have been widely used in various parts of the world, including Canada, the United States, South Africa and Greece, and their use has resulted in important discoveries of valuable ore bodies, of which perhaps the most notable were the discoveries of copper and tin near Bathurst in New Brunswick in 1952 and near Newcastle in the same province in 1954. But while the plaintiff's prospecting method involving the use of its equipment has been useful it has not wholly displaced other prospecting methods. The resistivity and self-potential methods are still in use to a limited extent and, as Dr. Seisel stated, there were two electro-magnetic induction methods other than the plaintiff's that were in use in Canada, namely, the Slingram method and a modification of the Turam methods, both originating in Sweden. Thus the factors that might make commercial success evidence *per se* of invention of the subject covered by a patent, if such evidence were needed, are not present in this case, as they were in the cases of *The King v. Uhlemann Optical Company*¹ and *The King v. American Optical Co.*² But while this is so, the evidence of the commercial success of the plaintiff's apparatus and prospecting method is convincing proof, if any were needed, of their utility.

Counsel for the defendants made the usual attacks on the validity of the plaintiff's patent, namely, that it was void for lack of novelty, utility and inventive ingenuity, and also some special attacks that will be mentioned later. In this connection I refer again, as I have done in previous cases, to the statutory presumption of the validity of a patent granted under the governing *Patent Act*. The first reference to this presumption was in *The King v. Uhlemann Optical Company*³ where I said, at page 161:

There is a presumption of validity in favor of the patent by reason of its issue and the onus of proving that it is invalid for lack of invention is on the person attacking it . . . The onus is not an easy one to discharge.

¹ [1950] Ex. C.R. 142.

² [1950] Ex. C.R. 344.

³ [1950] Ex. C.R. 142.

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The finding that the onus of showing the invalidity of a Canadian patent lay on the person attacking it followed of necessity from section 47 of *The Patent Act*, 1935, which provided:

47. Every patent granted under this Act shall be issued under the signature of the Commissioner and the seal of the Patent Office. The patent shall bear on its face the date on which it is granted and issued and it shall thereafter be *prima facie* valid and avail the grantee and his legal representatives for the term mentioned therein . . .

Thorson P. This statutory presumption of validity has been dealt with in several cases since the *Uhlemann Company* case (*supra*): *vide O'Cedar of Canada Ltd. v. Mallory Hardware Products Limited*¹; *Riddell v. Patrick Harrison & Co. Ltd.*²; *Reliable Plastics v. Louis Marx*³, and, most recently, in *Unipak Cartons Ltd. v. Crown Zellerbach Canada Limited* ante p. 396. In the last mentioned case I made the following comment:

the statutory presumption is not confined to the attribute of inventiveness but extends to the other attributes that an invention must have if it is to be patentable under the Act, such as novelty and utility. The three attributes of patentability, namely, novelty, utility and inventiveness are all presumed to be present in an invention for which a patent has been granted until the contrary is clearly shown.

On further consideration I am of the opinion that this statement is not as wide as the terms of the Act warrant. It must follow from the provision of the Act that a patent granted under it "shall thereafter be *prima facie* valid" and avail its grantee and his legal representatives for the term of the patent that the onus of showing that it is invalid lies on the person attacking it, no matter what the ground of attack may be, and that until it has been shown to be invalid the statutory presumption of its validity remains.

This does not mean that the patent is immune from attack or that the patentee is free from the obligations that are incumbent on him by way of consideration for the grant of the patent monopoly to him, but it seems clear that, since Parliament has deliberately endowed a patent granted under the Act with a presumption of validity, the onus of showing that such a patent is invalid is not an easy one to discharge. That being so, the English decisions indicating that a patentee must prove the existence of the essential attributes of the patentability of the invention covered by

¹ [1956] Ex. C.R. 299 at 316.

² (1957-58) 17 Fox P.C. 83 at 99.

³ (1958) 29 C.P.R. 113 at 127.

his patent before he can succeed in an action for damages for infringement of his rights under his patent are no longer applicable in Canada. He need not prove the existence of these attributes, for he starts with a statutory presumption of their existence in his favor and the onus of showing their non-existence lies on the alleged infringer of the patent. The enactment of the statutory presumption of validity effected an important change in Canadian patent law and marked a substantial advance in the protection of a patentee's rights.

There were several attacks on the validity of the plaintiff's patent. Some of them related to both the apparatus invention defined in Claim 8 and the prospecting method invention defined in Claims 11 and 12, but I shall, as far as I am able, deal first with the attacks on the validity of Claim 8.

While it was alleged in the statement of defence that the invention claimed by the plaintiff was known and used by others before its date as appeared from the common knowledge of the art and prior public knowledge as shown by prior uses by Hans Lundberg and others, counsel for the defendants stated that he would not rely on any prior user of the invention or any prior publications as being anticipatory of the invention except two documents, filed as Exhibits J and K. This means that the evidence of Mr. Lundberg purporting to show prior use of the invention may be disregarded and it is also clear that Exhibits J and K have no bearing on the validity of Claim 8. They will be dealt with when the attacks on Claims 11 and 12 are considered.

There is, in my opinion, no possible doubt that the basic concept of control of the frequency of the generator by a load imposed on it by the transmitter coil was a novel one. No one had thought of it prior to the date of the invention in suit. Mr. Cartier had never previously heard of the idea. Indeed, what the inventors did involved a radical departure from the teaching of the prior art which was to the effect that a resonant circuit should be operated at the resonant frequency. Mr. Robinson stated that in the prior art a person would have tuned his load to the operating frequency and that the idea of tuning the transmitter coil to a frequency above the desired frequency of the generator was a new one. Mr. Doeringer said that prior to the date of the invention the only means of controlling the frequency of

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the generator that he knew of was by a governor and a fly-wheel. He did not know anything about sharply rising loads. Mr. Mounce admitted that there was novelty in the idea. He had never found any reason for doing what the inventors had done and never knew of a series tuned circuit with a sharply rising peak being imposed on the generator as a load.

There was a good deal of discussion about the two curves shown on the graph, Exhibit 8, namely, the brake horsepower curve and the load curve, and it was suggested that the evidence of Mr. Mounce and Dr. Watson indicated that they were not novel. But Mr. Mounce admitted that he was not aware of any text book showing a load curve for a series tuned circuit, and he had no knowledge of the brake horsepower curve that would be portrayable on a graph from the operation of an engine with a governor. It was not shown in any text book. Dr. Watson also admitted that he would not find the brake horsepower curve in any text book but stated that he would be able to get it from the engine manufacturer or calculate it. Similarly, he said that while the load curve did not appear in any text book it also could be calculated. But the fact is that, even if the shape of each curve was known or could be calculated, the idea of putting the two curves together was not known prior to the date of the invention. There was no evidence that at any time prior to such date anybody had ever thought of a tuned transmitter coil in terms of a load that could be imposed on the generator in such a way as to effect frequency regulation of it. Indeed, the evidence is conclusive that the idea was a novel one.

It was contended for the defendants that the invention defined in Claim 8 was different from that which was disclosed in the specification and described in the evidence. After reviewing the elements in the Claim other than the means of suspension of the transmitter coil, which will be dealt with in detail when the issue of infringement is considered, counsel for the defendants submitted that while it was stated that the transmitter coil was of a size to be carried on the back there was no limitation of the size or weight of the motor generator set, that while it was specified that the transmitter coil should be tuned to form a resonant load for the generator there was no indication of how it should be tuned or what the steepness of its load should be and that the frequency referred to in the Claim was not

limited to low frequency. Coupled with these criticisms, it was contended that if there was any invention it lay in specifying the operating conditions under which a tuned transmitter coil, when connected with a motor generator, would effect regulation of its frequency and that, consequently, the alleged invention was that of an operation and not that of pieces of apparatus as claimed. It was also urged that when a resonant tuned transmitter coil was connected to a motor generator the frequency of the generator could be controlled by setting the throttle of the motor so that its available power, regardless of the size of the motor, would be smaller than that of the transmitter coil or, to put it in the language of the inventors, less than the load that the transmitter coil could impose on the generator. It was, consequently, submitted that the Claim would extend even to such a large motor as that which Mr. Cartier had used at Sudbury, if he throttled it down appropriately, from which it followed that the Claim was wider than the alleged invention and was invalid in that it asserted a monopoly that was more extensive than was necessary to protect the alleged invention and different from it.

There is a ready and simple answer to the contention that if there was an invention it lay in an operation and not in pieces of apparatus and that, consequently, Claim 8 was bad in that it claimed an invention different from that which was made. There are numerous cases in which a claim for an apparatus has been upheld although it was the operation of the apparatus that was really in issue: *vide*, for example, *Lightning Fastener Co. Ltd. v. Colonial Fastener Co. Ltd. and G. E. Prentice Mfg. Co. Ltd.*¹ And it is clear that a monopoly in an apparatus may be validly defined by reference to the result which it is to accomplish: *vide No-fume Ltd. v. Frank Pitchford & Co. Ltd.*² Thus a claim is not invalid by reason of the fact that it is drawn in terms of the result of the invention defined by it.

As I construe Claim 8 it defines a combination of elements, the so-called pieces of apparatus, so constructed and arranged that when the combination is operated it produces a certain result, namely, regulation of the frequency of the generator. The combination is a transmitting unit and comprises, as two of its elements, a motor driven alternating current generator and a tuned air core transmitting coil, the

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¹ (1934) 51 R.P.C. 349 at 367.

² (1935) 52 R.P.C. 231.

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coil being of a size to be carried on the back and being connectible with the generator, that is to say, having a wire by which it can be connected to and disconnected from the generator, and being designed and constructed so that when it is connected to the generator it will, without any manipulation of the throttle of the motor, form a resonant load for the generator, that is to say, that it will impose a peaked load on the generator and thereby effect frequency regulation of it. The idea of load control by the transmitter coil of the frequency of the generator whereby it was regulated certainly involved an operation, but the idea was embodied in an apparatus that was so constructed and arranged that it made the desired result possible. Thus it was an apparatus embodying the idea referred to that was invented and Claim 8 properly defines it. This particular attack on Claim 8 fails.

The contention that Claim 8 was wider than the invention was more complex. While the size and weight of the motor generator is not specified in the Claim and its portability is not mentioned the fact that the transmitter coil is of a size to be carried on the back defines by necessary implication the power capability of the motor generator and, therefore, its size and weight. The portability of the transmitter coil limits the amount of copper in the coil and, consequently, the amount of power from the motor that it can control, for since it is to control and regulate the frequency of the generator by imposing a load on it that is greater than the power that the motor can supply it follows, of necessity, that if there is a transmitter coil of a certain size, the motor generator to which it is to be connected must be of such a size that the maximum power which the motor can supply will not be able to meet the load which the transmitter coil can impose on the generator. Thus, in effect, the portability of the transmitter coil defines the size and weight of the motor generator set to which, as contemplated in the claim, it is to be connected. It follows, of course, that the Claim would extend to any motor generator set which could not supply sufficient power to meet the load imposed on the generator by a transmitter coil that could be carried on a man's back. But the motor generator set that is contemplated by the Claim is limited in size and, therefore, in weight to that with which the portable transmitter coil, when tuned as specified in the Claim and connected to it, could regulate its frequency.

Counsel for the defendants contended that the Claim, because of the use of the word connectable (*sic*), did not impose any limitation on the size or weight of the motor generator. It was his submission that a transmitter coil of a size to be carried on the back could be connected to a large motor generator in which case the determination of whether it was so tuned as to form a resonant load for the generator and so act to effect its frequency regulation would depend on the proper setting of the throttle of the motor. If it were set so that its available power would not be sufficient to meet the load that the transmitter coil could impose on it then its frequency could be regulated. This was the basis of the submission that the Claim would extend to the large motor on which Mr. Cartier had worked at Sudbury and was, therefore, wider than necessary to protect the invention.

Counsel's submission that the Claim was too wide was related to his submission that if there was any invention it lay in an operation and that such operation consisted in so setting the throttle of the motor to which the transmitter coil was to be connected that its available power would be less than the transmitter coil could absorb or, to put it otherwise, not sufficient to meet the load which the transmitter coil could impose on the generator. On that view of the invention it would be conceivable that the claim extended to a motor generator set of large size and power but throttled down so that it could not supply any more power than that which could be supplied by an unthrottled small motor, such as the 1.2 horsepower motor referred to in the evidence, and that the supplier of such a large motor generator set with the motor throttled as indicated and a portable transmitter coil would infringe the claim, if any person would be senseless enough to buy a motor of such large size throttled down as indicated and so carry useless weight.

In my opinion, Claim 8 does not extend to a large but throttled motor. The idea that struck the inventors was the converse of that suggested by counsel for the defendants. Their invention did not lie in the idea of a proper setting of the throttle of the motor. On the contrary, it lay in the idea that the transmitter coil could be used as a load to be imposed on the generator in order to control and, therefore, regulate its frequency. The problem of the inventors was the maintenance of frequency stability with the use of the smallest size motor that would give the necessary signal

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strength. It was, therefore, necessary to use its maximum power and their invention consisted in the discovery that they could control the frequency of the generator and thereby effect its frequency regulation by designing and constructing the transmitter coil so that when it was connected with the generator it would impose a steeply rising load upon the generator that was greater than the power that the unthrottled small motor could supply. Claim 8 does not contemplate any throttling of the motor of the motor generator set but rather that the tuned transmitter coil should form a resonant load for the generator and so effect its frequency regulation immediately on its connection with the generator and the setting of it into operation. That is how a person skilled in the art would read the Claim. He would not read it as extending to a large size motor that had to be throttled so that its full available power could not be used, but would know from the fact that the transmitter coil was to be of a size to be carried on the back the limits of the size and weight of the motor to which it should be connected. Thus Claim 8 extends only to motors of the size and weight that a person skilled in the art would be likely to use in connection with a transmitter coil that could be carried on a man's back and was tuned as specified in the Claim. In my opinion, Claim 8 is not too wide.

One of the charges against Claim 8 was that it was invalid for lack of inventive ingenuity in the purported invention defined by it. This was related to the submissions that what was claimed as an invention was merely a method of operating the motor so that it could not produce more power than the transmitter coil could absorb when it was tuned as defined and connected with the motor generator, that if the motor was operated in such a manner the desired frequency regulation would be effected and that it would be obvious to any workman skilled in the art who wished to obtain frequency stability that he could do so merely by operating the motor so that its available power would never equal the load imposed on the generator by the resonant tuned transmitter coil and that he could effect the desired frequency regulation by simply setting the throttle of the motor so that it would limit its available power to the desired amount.

There is no merit in this complaint. It is contrary to the clear instruction in paragraph 36 of the specification,

namely, that the conditions of operation of the generator should be such that the resonant circuit of the transmitter coil and its condensers should be utilized to maintain the speed of the generator and hence its frequency substantially constant. The inventors were not seeking frequency stability by throttling a large motor so that it could not deliver all its power. What they were seeking to accomplish was the maintenance of frequency stability in the case of the smallest motor that could provide adequate field strength and they accomplished the desired result, not by throttling the motor, but by tuning the transmitter coil so that it imposed a sharply rising load in the generator that was greater than the power that the motor could supply, and thereby utilizing the maximum power of the smallest motor that would give an adequate signal to the operator of the receiver coil. It was the discovery of the principle of load control by the transmitter coil of the frequency of the generator to effect its frequency regulation so that it would be substantially constant that was the essence of the invention. This required a resonant tuning of the transmitter coil of such a nature that when the operations of the transmitter coil and of the motor were portrayed on a graph in terms of curves, the brake horsepower curve, representing the power of the motor, would intersect the sharply rising load curve, representing the load imposed by the transmitter coil, below its apex, as shown by Figure 7 of the drawings and Exhibit 8, and never rise above it. The discovery made by the inventors involved, as already stated, a radical departure from the prior teaching of the art and was certainly not obvious. There is no doubt that the invention defined in Claim 8 involved the exercise of inventive ingenuity. The answer to the charge of lack of invention carries with it a reply to the complaint made by counsel for the defendants that there was no indication of how the transmitter coil should be tuned or what the steepness of the load imposed by it should be. The Claim specifies that the transmitter coil should be tuned to form a resonant load for the generator which should act in such a way as to effect frequency regulation of it and Figure 7 of the drawings shows how this is to be done, namely, that the load to be imposed on the generator by the transmitter coil must be of a steeply rising character like the load curve shown in Figure 7 and that it must be greater than the power that the motor could supply as

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indicated by the fact that the brake horsepower curve, representing the power of the motor, as shown on Figure 7, intersects the load curve below its apex which teaches that the load must always be greater than the power of the motor.

The remaining charges against Claim 8 were that it was ambiguous and avoidably obscure by reason of the fact that the term frequency regulation was not defined and there was no indication that low frequency was to be used.

Counsel for the plaintiff took objection to these charges on the ground that the allegations on which they were based amounted to allegations of insufficiency and, as such, must be pleaded and that since the charges had not been pleaded counsel for the defendants was precluded from raising them. A lengthy argument resulted in the course of which counsel for the plaintiff relied upon, *inter alia*, Terrell and Shelley on Patents, Ninth Edition, at page 338; *Heathfield v. Greenway*¹; and *The Franco-Strohmenger and Cowan Inc. v. Peter Robinson Ltd.*²

Counsel for the defendants contended that the charges were not allegations of insufficiency but charges of ambiguity and avoidable obscurity and that they might properly be made without any allegations of them in the pleadings.

The law on the question is well settled. It is set out in the classic statement of Earl Loreburn in *Natural Kinematograph Co. Ltd. (in liquidation) v. Bioschemes Ltd. (In the Matter of G. A. Smith's Patent)*³, where he said:

Some of those who draft Specifications and Claims are apt to treat this industry as a trial of skill, in which the object is to make the Claim very wide upon one interpretation of it, in order to prevent as many people as possible from competing with the patentee's business, and then to rely upon carefully prepared sentences in the Specification which, it is hoped, will be just enough to limit the Claim within safe dimensions if it is attacked in Court. This leads to litigation as to the construction of Specifications, which could generally be avoided if at the outset a sincere attempt were made to state exactly what was meant in plain language. The fear of a costly lawsuit is apt to deter any but wealthy competitors from contesting a Patent. This is all wrong. It is an abuse which a Court can prevent, whether a charge of ambiguity is or is not raised in the Pleadings, because it affects the public by practically enlarging the monopoly, and does so by a kind of pressure which is very objectionable. It is the duty of a patentee to state clearly and distinctly, either in direct words or by clear and distinct reference, the nature and limits of what he claims. If he uses language

¹ (1894) 11 R.P.C. 17 at 20.

² (1930) 47 R.P.C. 493 at 502.

³ (1915) 32 R.P.C. 256 at 266.

which, when fairly read, is avoidably obscure or ambiguous, the Patent is invalid, whether the defect be due to design, or to carelessness or to want of skill. Where the invention is difficult to explain, due allowance will, of course, be made for any resulting difficulty in the language. But nothing can excuse the use of ambiguous language when simple language can easily be employed, and the only safe way is for the patentee to do his best to be clear and intelligible.

and in that of Lord Parker in the same case, where he said, at page 268:

Patents are granted by the Crown in consideration of the disclosure of some invention likely to benefit the public and on the representation that such disclosure is made by the Complete Specification. In preparing the Complete Specification, therefore, the applicant for a Patent must observe the utmost good faith. The intentional introduction of an ambiguity for the purpose of misleading the public, or of embarrassing them in the exercise of their Common Law right to trade in such manner as they think best, would be alone sufficient to avoid the Patent, and in a case reasonably capable of unambiguous statement the want of good faith may be gathered from the terms of the Specification itself. In such a case, I apprehend that the Court might, on its own initiative, declare the Patent to be invalid. Further, though it may be true that in construing an instrument *inter partes* the Court is bound to make up its mind as to the true meaning, this is far from being the case with a Specification. It is open to the Court to conclude that the terms of a Specification are so ambiguous that its proper construction must always remain a matter of doubt, and in such a case, even if the Specification had been prepared in perfect good faith, the duty of the Court would be to declare the Patent void. Once again, though the Court may consider that the meaning of the Specification is reasonably clear, yet if the Specification contain statements calculated to mislead the persons to whom it is addressed, and render it difficult for them without trial and experiment to comprehend in what manner the patentee intends his invention to be performed, these statements may avoid the Patent.

and in *The Franc-Strohenger and Cowan Inc. v. Peter Robinson Ltd.*¹, where Maugham, J., said, at page 500:

I think it is quite clear from the authorities that the plea of ambiguity is open to be taken by the Defendant without any special reference to it in the pleadings, and, of course, without particulars. The question of ambiguity goes to the true ambit of the monopoly. The question is one of construction for a judge.

*Vide also Marconi's Wireless Telegraph Co. Ltd. v. J. B. Cramer & Co. Ltd.*²

Counsel for the defendants took the position that the use of the term frequency regulation in the Claim was so ambiguous that it rendered the whole Claim ambiguous. His complaint, put briefly, was that the term was not defined either in the Claim or in the disclosures of the Specification, that it was indefinite and not precise, that there was no help in the statement in the disclosures that the frequency

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¹ (1930) 47 R.P.C. 493.

² (1932) 49 R.P.C. 400.

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should be substantially constant, that the load curve shown in Figure 7 of the drawings did not show how steep the curve should be, that the extent of the claimed monopoly should have been precisely defined so that a person would be able to know whether he infringed it or not, that the applicants for the patent could and should have specified the range of tolerable frequency variation implied in the term and that since they had not done so the Claim was ambiguous and avoidably obscure.

I agree that it was open to counsel to make his charge, notwithstanding the absence of pleadings in the matter but I am also of the opinion that there is no sound basis for the charge. While it is true that the term frequency regulation is used only in Claim 8 and is not defined in it and that Mr. Cartier agreed that there was no sharp boundary line of tolerable frequency variation the fact is that it is desirable to have the frequency control as close as possible and that in terms of curves the load curve should be steeply rising and have its apex above the brake horsepower curve. A person skilled in the art would, in my opinion, come unerringly to this conclusion. On seeing the term frequency regulation in the Claim and finding no specific definition for it, he would resort to authoritative definitions to ascertain its meaning. The American Standard Definitions of Electrical Terms, filed as Exhibit 24, defines "frequency control" and "regulated frequency". "Frequency control" means "the regulation of the frequency of a generating station or system within a narrow range", and "regulated frequency" means "frequency so adjusted that the average value does not differ from a predetermined value by an appreciable amount". Mr. Cartier, Mr. Robinson and Mr. Doeringer all agreed with these definitions. Moreover, there is the instruction in the Specification that the resonant circuit of the transmitter coil and its condensers is utilized to maintain the generator speed and hence frequency "substantially constant". It is, of course, implied in the term and the Claim that the frequency regulation should be useful. A person skilled in the art would not read the Claim otherwise. Mr. Cartier stated that, in his opinion, a satisfactory frequency control in the art under review meant a control within a variation of three per cent, that is to say, plus or minus one and a half per cent each way, which was the degree of control achieved by the inventors, but a variation of five per

cent would be tolerable. The essence of the Claim was the fact that the frequency of the generator could be controlled and, therefore, regulated. Any person skilled in the art would know that and there could be no doubt in his mind that if he constructed a transmitter coil so that it formed a resonant load for the generator and effected frequency regulation of it in such a way that the frequency was substantially constant or that it differed from the determined value, say a value of 1,000 cycles, by an amount that was not appreciable, he would infringe the claim. Under the circumstances, it was not necessary to set out precisely how steep the load curve shown by Figure 7 of the drawings should be. Its steepness was sufficiently indicated by the Figure. In my opinion, the charge that the use of the term frequency regulation in the Claim made it ambiguous and avoidably obscure is unfounded.

Finally, there was the charge that Claim 8 was ambiguous and avoidably obscure by reason of the fact that there was no reference in it to the need for the use of a low frequency. Coupled with this there was the complaint, perhaps more referable to Claims 11 and 12 than Claim 8, that the range of the frequency that was to be used was not defined. It was urged that the patentee could have specified that the frequency regulation that was to be effected was regulation of a low frequency within a specified range and that he should have done so. The contention was, in effect, that, since a term of such comparative and uncertain ambit was used, there was an obligation to define its permissible range so that a person would know the limit of the monopoly that was claimed. I am unable to accept this contention. I agree that there is no reference to the requirement of low frequency in the Claim and no reference to it in the disclosures of the specification, except inferentially in paragraph 31 where there is a reference to the audio-frequency range, and that there is no definition of low frequency in the patent but, in my opinion, there is a complete answer to the specific complaint now under consideration, namely, that a person skilled in the art who had read the specification would know that the frequency regulation referred to in Claim 8 meant regulation of a low frequency and would know the range of such low frequency. The specification and the Claim refer to the fact that the transmitter coil creates an alternating magnetic field and the evidence indicates that it is only by

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the use of a low frequency apparatus that an alternating magnetic field can be created. The evidence also shows that the use of a gasoline driven motor and a generator implies, of necessity, that the frequency emanating from it must be a low one. A person skilled in the art would know these facts so that as soon as he saw the words "motor-driven alternating current generator" in Claim 8 he would know that it was limited to the use of a low frequency and could not extend to the use of a high one. Consequently, it was not necessary to specify that the frequency must be a low one. Such a specification would be redundant or, as counsel for the plaintiff put it, pleonastic. And it was not necessary to specify the range of the low frequency that was to be used for, as I have already stated, the terms "low" and "high", when applied to frequencies, must be related to the arts in which they are used and in the art with which this case is concerned the term low frequency means any frequency up to 2,000 cycles per second or, as Dr. Watson put it, any frequency from 300 cycles up to 3,000 cycles. Thus the charge fails.

Consequently, I find that all the attacks on the validity of Claim 8 fail and that it is valid.

The attacks on the validity of Claim 11 were fewer in number. While it was suggested by Dr. Seigel in the course of his evidence that the prospecting method defined in the Claim was not more effective than previous methods had been and that its commercial success was fortuitous, counsel for the defendants did not go so far as to contend that the Claim was invalid for lack of utility. If he had done so his attack could not have succeeded for, quite apart from the presumption of utility in favor of the Claim, an effective answer to the charge would have been, as will appear later, that the method was used by the defendant Sharpe Geophysical Surveys Limited: *vide Turner v. Bowman*¹ and *Samuel Parkes & Co. Ltd. v. Cocker Brothers Ltd.*² And, as I have already stated, the evidence of the commercial success of the plaintiff's apparatus and method, notwithstanding Dr. Seigel's suggestion, is proof of utility, if any proof were needed.

There were several attacks on the validity of the Claim. I shall deal first with the contention that the alignment

¹ (1925) 42 R.P.C. 29 at 39.

² (1929) 46 R.P.C. 241, per Tomlin, J., at 244.

feature of the Claim, namely, that the receiver coil should be "located generally in line with the plane of the transmitter coil" was not novel but had been anticipated by a prior publication, filed as Exhibit J. This was an extract from Memoir 170 of Studies of Geophysical Methods, 1930, published by the Canadian Department of Mines, Geological Survey, in 1932. It described, in Chapter 3, certain electro-magnetic induction methods of locating conducting ore bodies and in particular "The Induction Method with Vertical Exciting Loop". It was contended by counsel for the defendants that the document was anticipatory of the alignment feature of the method defined in Claim 11, that this was its essential feature, and that no inventive ingenuity was involved in any of its other features. He submitted, with characteristic propriety, that the soundness of his contention depended on whether there was an instruction in Exhibit J that the receiver coil (called in Exhibit J the exploring coil, the detecting coil, or simply the coil) was or was not located generally in the line of the plane of the transmitting coil (called in Exhibit J the vertical loop, or simply the loop). In this portion of the reasons for judgment I shall use the term coil as meaning the receiver coil and the term loop as meaning the transmitter coil.

I should state that the method described in Exhibit J was used to illustrate its value in determining the location of a known conductor ore body. The instructions on which counsel relied were set out on pages 43 and 44 of the document. After it had been specified that the coil should be set up at stations on a line at right angles with the known strike of the ore body, it was stated, on page 43:

The loop is now turned so that its plane points towards the exploring coil. The exploring coil is orientated towards the loop with the plane of the coil vertical.

and, on page 44:

To make the survey, the stations are chosen above the line and the loop adjusted with its plane pointing to the coil. The plane of the coil is pointed towards the loop . . .

Counsel interpreted these statements as an instruction that the plane of the loop (transmitter coil) should be pointed towards the coil (receiver coil) in such a way that the plane of the loop passed through the coil and that the coil should be pointed toward the loop with its plane vertical.

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If this is the correct interpretation of the document it follows that the coil was to be "located generally in line with the plane of the transmitting coil", within the meaning of Claim 11 and, therefore, anticipatory of its alignment feature.

But it was contended for the plaintiff that the instruction of Exhibit J was that the planes of the loop and the coil were to be pointed towards one another so that they were face to face with their axes co-axial. If that is the correct interpretation of the document it was plainly contrary to the alignment feature of Claim 11 and, of course, not anticipatory of it.

There was conflicting evidence on the meaning of Exhibit J. Strictly speaking, such evidence was inadmissible, the interpretation of the document being a matter for the Court and not for witnesses: *vide Celanese v. Cortaulds*¹.

Exhibit J was introduced by counsel for the defendants in the course of his cross-examination of Mr. Cartier and he relied on the fact that Mr. Cartier had never criticized the document on the ground that it failed to teach the need for aligning the coil in the plane of the loop. He contended that a review of Mr. Cartier's evidence left no doubt that he took Exhibit J as telling him to point the loop to the coil so that the plane of the loop would pass through the coil and, hence, indicating that the coil should be located generally in line with the plane of the loop. There was a good deal of force in this contention but it should be noted that Mr. Cartier did say that he did not know what was meant by the statement in Exhibit J that the plane of the loop should be pointed to the coil and that he did not understand the described arrangement.

Counsel did not fare as well with Dr. Watson. On his first reading of Exhibit J Dr. Watson found that the axes of the loop and the coil, if their planes were pointed at one another as directed in the document, would coincide and that, consequently, the loop and the coil would be coaxial. If this was so the instruction in Exhibit J would run counter to the alignment feature of Claim 11. The day after Dr. Watson gave his opinion he changed it. Counsel sought to explain Dr. Watson's first opinion by saying that he had read the document in the light of his present knowledge and that what led him to it was the fact that elevational errors

¹ (1935) 52 R.P.C. 171 at 195, I. 44.

were mentioned in the document and that these would occur only if the planes of the loop and the coil were face to face from which he concluded that they must have been so. Counsel submitted that if Dr. Watson had not had his present knowledge he could not have read Exhibit J as he first did but would have found that the loop and the coil were co-planar.

Finally, the submission of counsel was that any reader of Exhibit J with the knowledge that a person skilled in the art would have at the time of its publication would conclude from it that it contained a direction that the transmitter coil should be pointed to the receiving coil so that its plane passed through the receiver coil and that if Claim 11 were only for its alignment feature Exhibit J would be anticipatory of it.

There are several reasons for rejecting this submission. One reason is based on the fact, as I have computed it, that the evidence relating to Exhibit J and the argument of counsel on the effect of the evidence and the meaning of the document took up at least five days of the trial. Under the circumstances, it would be utterly unreasonable to hold that a person skilled in the art would, on reading Exhibit J, find in it a clear instruction that the receiver coil should be located generally in line with the plane of the transmitting coil and that, consequently, Exhibit J was anticipatory of the alignment feature of the invention defined in the Claim. If the dispute as to the meaning of Exhibit J, in which such experts as Mr. Cartier and Dr. Watson took part, and in which such eminent counsel as counsel for the parties were engaged, took up five days of trial surely it could not be said, in the words of Viscount Dunedin in *Pope Appliance Corporation v. Spanish River Pulp and Paper Mills Ltd.*¹, that a man who was grappling with the problem solved by the Patent attacked, and having no knowledge of that patent, if he had had the alleged anticipation (Exhibit J) in his hand, would have said, "That gives me what I wish." It is much more likely that he would have been as confused about the teaching of the document as Mr. Cartier and Dr. Watson were.

Moreover, the contention of counsel for the defendants was completely demolished by Mr. Johnson, junior counsel for the plaintiff, in his able cross-examination of Dr. Watson

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¹(1929) 46 R.P.C. 23 at 52.

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and his convincing examination of Exhibit J itself. He proved conclusively that the method described in Exhibit J gave misleading information. I have already referred to the fact that the method was used over a known conductor ore body but it also appears from a continuation of Exhibit J, which was filed as Exhibit 27, that it was also used over a diabase dyke, which Dr. Watson admitted was a non-conductor, and that the results of its use over the said diabase dyke indicated the presence of a conductor ore body there although no such body was present.

If the proper interpretation of Exhibit J was that the coil and the loop should be pointed towards one another so that they were co-axial, as Dr. Watson first understood the instruction in it, that would be the worst possible arrangement for effective prospecting for it would almost certainly lead to misleading readings. I, therefore, agree with Mr. Johnson's submission that a person skilled in the art would, on reading Exhibit J and Exhibit 27, consider that the method described in the documents was not only useless but also led to misleading readings.

To say the least, the meaning of the instruction that the planes of the loop and coil should be pointed to one another was not free from doubt. Mr. Cartier did not understand what it meant, counsel for the defendants took from it the meaning that I have described, Dr. Watson took one meaning out of it the first time and a different one the next day and junior counsel for the plaintiff submitted that the words meant precisely what they said, namely, that the plane of the loop was to be pointed to the coil and the plane of the coil pointed to the loop which would make the loop and the coil co-axial as Dr. Watson had found on his first reading of the document. If the meaning of the instruction is ambiguous it should certainly not be allowed to rebut the statutory presumption of validity to which the plaintiff is entitled.

Finally, Mr. Johnson demonstrated beyond doubt, from Exhibit J itself, that its authors intended that the planes of the loop and the coil should be pointed towards one another so that they would be face to face and, therefore, co-axial. The demonstration was of a highly technical nature involving the application of geophysical principles, the circumstances under which maximum and minimum sounds would be produced in the coil, the ascertainment of the directions

of the vectors of the lines of force of the primary and secondary magnetic fields respectively set up by the loop and the known conductor ore body with its known strike and the measurement of the angle of deviation of the resultant vector from the vertical and the resulting direction of the conductor ore body. No useful purpose would be served in setting out the argument in the detail that would be necessary to make it intelligible. It took Mr. Johnson a full day to develop it. I have carefully reviewed the transcript of his argument and am fully satisfied with the conclusion reached by him. Under the circumstances, it will be sufficient if I state it briefly. Substantially, his conclusion was that the results of the use of the method described in Exhibit J, as shown by Figure 19 of the Exhibit, could not have been produced otherwise than by having the plane of the coil and the plane of the loop point towards each other so that they were face to face and the loop and the coil were co-axial, that the results would have been different if the loop and the coil had been co-planar instead of co-axial and that it was erroneous to read the instruction in Exhibit J that the planes of the loop and the coil should point towards one another as meaning that the loop should be pointed towards the coil in such a way that its plane passed through the coil.

Consequently, I find that Exhibit J did not teach the alignment feature of the prospecting method defined in Claim 11 and was not anticipatory of it. It is significant to note in this connection that there is no evidence that any method based on Exhibit J was ever put into commercial use.

Counsel for the defendants also relied on Exhibit K as anticipatory of the alignment feature of the plaintiff's prospecting method. This was an extract from a book on Exploration Geophysics by Dr. J. J. Jakosky, published in 1928. On page 422 of the book Figure 244 shows a medium frequency vertical energizing coil (transmitter coil) in position with a flag at the electrical centre of the coil which was used for proper alignment of the direction-finding coils (plural). On the same page there is a description of the field operations for the vertical energizing coil method. On page 423 there is Figure 245, a sketch illustrating the possible relative orientations of the direction-finding coil and the energizing coil for minimum signal. It is stated, at

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page 422, that when a direction-finding coil is placed in such a position that its axis of rotation lies in the plane of the energizing coil the minimum signal will be obtained when the coils are at right angles to each other, that is, when the direction-finding coil is horizontal and the energizing coil is vertical, and that, on the other hand, a maximum signal will be obtained when the direction-finding coil is in the same place as the energizing coil. At page 423, it is stated that the axis of rotation for the direction-finding coil is horizontal *only* when the direction-finding coil is at the same elevation as the energizing coil and then it is pointed out that the initial setting up of the equipment involves two operations, as follows:

- (1) proper alignment of the energizing coil so that its plane is always vertical and passes through the axis of rotation of the receiving coil, and
- (2) alignment of the direction-finding coil so that its axis of rotation passes through the centre of the energizing coil.

On the strength of these statements counsel for the defendants contended that Exhibit K really taught the use of the alignment feature of the plaintiff's prospecting method and was, consequently, anticipatory of it. This was strongly resisted by Mr. Cartier who pointed out at least five inaccuracies in the description of the Jakosky method and concluded that Exhibit K was utter nonsense. In my judgment, this conclusion was justified. It was stated by Mr. Cartier that in the original text of Dr. Jakosky's book, published in 1928, there were 14 pages in between the description of the vertical coil on page 422, as shown by Figure 244, and the description of the field operations for the vertical energizing coil method and that these 14 pages described a method that used high frequencies. Mr. Cartier concluded from this fact that the field operations for a vertical energizing coil method that were described in Exhibit K were those of a method that used high frequencies and that a description of it was valueless to a person who was seeking to solve the problems of the art with a method that used low frequencies. There can be no doubt that the method described by Exhibit K did use high frequencies. This was not disputed by counsel for the defendants but he contended that the criticisms of the method made by Mr. Cartier would not lead a normal reader of Exhibit K to any doubt as to the meaning of the directions on page 423 and that

there was nothing to indicate that the method was to be used only with high frequencies. The answer to this was that there was a difference in kind between high frequencies and low frequencies. Junior counsel for the plaintiff effectively answered the contention of counsel for the defendants pointing out in the course of his argument, *inter alia*, that the equipment portrayed in Figure 244 was not orientable in azimuth as in the case of the plaintiff's transmitter coil and that its use did not contemplate the use of traverse lines, that there was no instruction in Exhibit K as to what was to be done with the equipment after it had been initially set up, that the references in the article to dip and strike meant that two measurements were to be made and that the alignment of the direction-finding coil so that its axis of rotation passed through the centre of the energizing coil meant that it should pass through its electrical centre. He agreed with Mr. Cartier's strictures concerning Exhibit K and concluded that the method described in it had nothing to do with the prospecting method defined in Claim 11. In his opinion, a person reading the article would be led away from the method of the Claim to a method of high frequency energizing coils. In my opinion, Exhibit K does not support the contention of counsel for the defendants.

Counsel for the defendants did not go so far as to contend that Exhibit J was anticipatory of the whole of the prospecting method defined by Claim 11. Obviously, it did not meet the requirements of an anticipatory publication that are set out in *The King v. Uhlemann Optical Co.*¹; *vide* also *O'Cedar of Canada Ltd. v. Mallory Hardware Products Ltd.*² But counsel's argument led, in effect, to the same result as if he had made such a contention. He submitted that the only difference between Claim 11 and Exhibit J was the feature specified in the former that the search coil (receiver coil) should be swung on an extended axis, that, otherwise, Exhibit J contained everything that was in Claim 11, that there was nothing inventive about swinging the search coil on an extended axis and that, consequently, Claim 11 was invalid in that it claimed exactly the same method as that described in Exhibit J except the swinging of the search coil on an extended axis in respect of which there was no invention. It was also contended that Claim 11 did not

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¹ [1950] Ex. C.R. 142 at 157.

² [1956] Ex. C.R. 299 at 313.

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specify how extended the axis of the search coil should be, that it would, therefore, include any extension, no matter how short or how long, that the receiver coil referred to in Exhibit J was mounted on a tripod and swung from it and that no inventive ingenuity was involved in maintaining the receiver coil on an extended axis instead of on a tripod. Counsel also submitted, in effect, that there was no utility in the swinging of the search coil on an extended axis, that there was nothing to show whether the plaintiff's commercial success was attributable to the use of its apparatus or to the use of its prospecting method, that such success could not be attributed to swinging the search coil on an extended axis, that it would have been achieved just as well without it, that the result of using the method defined in Claim 11 was exactly the same as that of using the method described in Exhibit J, that the former was not an improvement over the latter and that there was no advantage in using it. Finally, counsel submitted that, if there was novelty in swinging the search coil on an extended axis thus making Claim 11 novel as compared with Exhibit J, the creation of such novelty did not involve the exercise of any inventive ingenuity. Thus, counsel for the defendants, instead of contending that Exhibit J was anticipatory of Claim 11, argued that it was anticipatory of its alignment feature and that the feature of swinging the search coil on an extended axis, which was the only thing that differentiated it from Exhibit J, lacked utility and inventiveness and that, consequently, the Claim was invalid.

There is a two-fold answer to this attack on the Claim. If counsel for the defendants was right in his contention that the feature of swinging the search coil on an extended axis was the only thing that differentiated the prospecting method defined in the Claim from that described in Exhibit J and that it did not add anything useful or inventive to the alignment feature of the method this was tantamount to saying that, apart from creating a low frequency alternating current by means of a transmitting coil suspended to hang vertically and orientable in azimuth, the invention defined in Claim 11 lay exclusively in its alignment feature. Indeed, this was implicit in counsel's argument that the result of using the method defined in the Claim was exactly the same as that of using the Exhibit J method, from which it would follow that the feature referred to was not only a

non-essential feature of the invention but also had no effect on it. It could not, therefore, fairly be said to be a limitation of the features that constituted the invention. Consequently, the remarks of Romer, J., in *Nettlefolds Ltd. v. Reynolds*¹ do not apply in this case.

Moreover, it is not a correct approach to the determination of whether a claim is invalid to pick out an individual feature of the invention defined by it and contend that because such feature is not new or useful and does not involve the exercise of inventive ingenuity the Claim is, therefore, invalid. It is well settled, as Lord Romer said in *Non-Drip Measure Com'y Ltd. v. Stranger's Ltd., et al.*² that this is not a legitimate method of approach and that the alleged invention must be regarded as a whole. If this were done in the present case there would be no doubt that the plaintiff's prospecting method was novel. Mr. Cartier had never heard of its having been used prior to the date of the invention and did not know any prospecting method, other than the plaintiff's, that combined the features of creating a low frequency alternating magnetic field, aligning the receiver coil generally in the plane of the transmitter coil, swinging the receiver coil on an extended axis and noting only one angle of declination from the vertical of the extended axis when the position of minimum or nil sound had been found. Moreover, the utility of the method was proved beyond dispute. Certainly it did not lie in the mouth of either of the defendants to deny its usefulness. And the evidence proves, if any proof were required, that the use of the low frequency and alignment features of the method substantially eliminated the misleading readings that had been such a bad feature of the prior art. In my view, Claim 11 when read as a whole defined an invention that was new, useful and inventive. Certainly, the statutory presumption that these factors of patentability were present was not disturbed.

Moreover, even if it were permissible to consider the attacks on the feature of swinging the search coil on an extended axis I would have no hesitation in finding that they were unfounded. I am unable to agree with the contention that the feature added nothing to the other features specified in the Claim and was useless and non-inventive.

¹ (1892) 9 R.P.C. 270 at 285, ll. 34-44.

² (1943) 60 R.P.C. 135 at 145.

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While it is true that there was some evidence on behalf of the defendants that the operator of the receiver coil would find it just as useful to hold it in his hand and swing it from side to side as to swing it on an extended axis, the weight of the evidence strongly indicates the usefulness of the feature in that it was possible to find the position of minimum or nil sound with greater ease and accuracy than previously and so make a quicker and more reliable reading of the spacial angle referred to in the Claim. And there was no evidence to warrant counsel's contention that the feature did not involve the exercise of inventive ingenuity.

It is not easy to separate some of the attacks on Claim 11 from the attempted defence against the charge of infringement of it. I have already referred to the comments of counsel for the defendants on the feature of swinging the search coil on an extended axis and his submissions that it was neither useful nor inventive. There were other attacks on the feature. Here I refer to the evidence of Mr. Doeringer regarding the receiver coil used by the defendant Sharpe Geophysical Surveys Limited. It was mounted on a pole that was four and a half feet high and was a foot and a half from the bottom of the pole and had a diameter of one foot and a thickness of two inches.

On these facts it was contended for the defendants that if it could be said that this coil was mounted on an extended axis then the Claim would extend to any extended axis no matter how short it was, even if only three inches, in which case the Claim would be wider than the invention, if there was any, in that it would include an extended axis that was so near to the ground that it could not produce the advantages claimed in the disclosures of the specification. In the alternative, it was submitted there was nothing in the patent to indicate how extended the extended axis should be and that, consequently, the Claim was invalid for ambiguity.

In my opinion, these charges cannot be supported. It was not necessary to specify in the Claim the ambit of the term "extended axis". I find support for this opinion in the decisions of the House of Lords in *British Thomson-Houston Company Ltd.*¹ where the term "large diameter" when applied to the filament of an incandescent electric lamp was held to be not ambiguous, and *Raleigh Cycle Co'y Ltd. et al.*

¹ (1922) 39 R.P.C. 49.

*v. H. Miller and Co'y Ltd.*¹ where the meaning of the term "steady light even at slow speeds" in the specification was considered.

Moreover, there is a practical limitation in the ambit of the term in the fact that since the receiver coil is to be swung on its extended axis it must be placed on the pole sufficiently above the ground to enable it to be swung as specified. Mr. Robinson stated that it did not matter where the receiver coil was placed on the pole so long as it was sufficiently above the ground to be out of the mud. In my opinion, any person skilled in the art would appreciate that fact and also the need for having the coil sufficiently above the ground so that it was swingable on the extension of its axis that was between it and the ground. Such a person would have no difficulty in knowing the ambit of the term.

In the course of the argument counsel for the defendants commented that the term "noting" in Claim 11 was wide enough to cover any kind of noting, even that used by Mr. Lundberg, and that, consequently, the Claim extended to a method of noting that was neither easy nor quick, but I did not understand him to go so far as to attack its validity on that ground. If he had done so the attack would have failed for the rest of the claim shows clearly that the purpose of swinging the search coil on an extended axis was to enable the operator of the receiver coil to note the spacial angle referred to in the Claim after the position of minimum or nil sound had been found, meaning thereby to make a reading at his station based on the angle of declination from the vertical of the extended axis of the receiver coil when it had been swung to the position of minimum or nil sound.

In my opinion, all the attacks on Claim 11 failed and I find the Claim valid.

The same finding applies to Claim 12. It is the same as Claim 11 except that it contemplates the use of an audio-frequency instead of a low frequency. Thus it extended to a higher frequency than Claim 11 does and, in that sense, it is a broader Claim. I find the Claim valid.

I now come to the question of infringement. The defendants deny that they have infringed any of the plaintiff's rights either to the apparatus defined in Claim 8 or to the prospecting method defined in Claims 11 and 12. I shall deal first with the question in respect of Claim 8. It should

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¹ (1948) 65 R.P.C. 141.

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be noted that the invention defined in it is limited to the transmitting unit of the plaintiff's prospecting apparatus. It is thus of narrower extent than the invention which the evidence discloses, but there is nothing to prevent an inventor from claiming less than his invention if that which he claims is itself an invention as, in my opinion, the plaintiff's transmitting unit plainly is. And, of course, the Court is here concerned only with whether there has been infringement of the plaintiff's rights in respect of the invention as claimed.

In a statement of admissions, filed as Exhibit 2, the defendants admit that the defendant Sharpe Instruments Limited has constructed and sold to others and the defendant Sharpe Geophysical Surveys Limited has used prospecting apparatus which includes an air core transmitting coil which can be carried on the back and which in use is mounted in a vertical position for orientation azimuthally, that the transmitting coil is electrically connected to a gasoline engine driven alternating current generator and that a condenser is connected in parallel with the transmitting coil for the purpose of achieving a resonant load for the alternating current generator.

This is as far as the statement goes. There is no mention of the frequency regulation referred to in the Claim. But important evidence of this was given by Mr. Cartier who had inspected the prospecting apparatus manufactured and sold by the defendant Sharpe Instruments Limited and used by the defendant Sharpe Geophysical Surveys Limited. Two inspections were made by him, one on March 31, 1954, and the other on November 17, 1954. They were made at the premises of the defendant Sharpe Instruments Limited and in the presence of its president and counsel for the parties. Here I should state that when I use the term defendant I mean the defendant Sharpe Instruments Limited and when I use the term defendant's apparatus or defendant's transmitting unit I mean the apparatus or transmitting unit manufactured and sold by the defendant Sharpe Instruments Limited and used by the defendant Sharpe Geophysical Surveys Limited. At the inspections referred to Mr. Cartier was shown a prospecting apparatus similar to that described in the defendant's booklet, filed as Exhibit 4. It consisted of a transmitter coil suspended from a short mast that rotated on a tripod so that the coil was freely

orientable in azimuth, a gasoline motor engine driven generator to energize it and a receiver coil with the necessary attachments including a clinometer. The motor generator set, which weighed 50 pounds and was mounted on a packboard, was similar to the plaintiff's. The transmitter coil was connected with the generator and the apparatus put into operation. There was a governor on the motor but it was inoperative. Mr. Cartier made certain tests while the apparatus was being operated and observed the effects of variations in the speed of the motor and the frequency of the generator. He measured this from time to time with a frequency meter and made notes of his measurements. Mr. Doeringer was also present at the inspection on November 17, 1954. In my opinion, no useful purpose would be served in setting out the details of the several tests and measurements made by Mr. Cartier. It will be sufficient to set out the conclusions drawn from them. I have already pointed out that the defendant's generator set was similar in weight and size to the plaintiff's. And, without going into the details of the evidence on the subject given by Mr. Cartier, Mr. Robinson, Mr. Doeringer and Mr. Mounce, I am satisfied that the electrical circuit in the defendant's apparatus, as shown in the right portion of the circuit diagram, filed as Exhibit 3, was electrically, if not physically, the equivalent of the electrical circuit in the plaintiff's apparatus, as shown in Figure 3 of the drawings of the specification. This equivalence was specifically stated by Mr. Doeringer and the fact is not disputed. Moreover, Mr. Cartier found that the speed of the motor and, consequently, the frequency of the generator was controlled by a sharply increasing resonant load imposed by the transmitter coil on the generator and by it on the motor. Mr. Doeringer also found that the speed of the motor and, therefore, the frequency of the generator was controlled by the combination of the transmitter coil and its associated condensers. And Mr. Mounce admitted that the load acted to restrict the speed variation of the motor. Thus, the load imposed by the transmitter coil operated as a control of the frequency of the generator and effected frequency regulation of it.

Mr. Cartier considered that the frequency control achieved by the defendant's apparatus, that is to say, by its transmitting unit was very good and Mr. Doeringer found its frequency regulation excellent.

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After Mr. Cartier had made his inspections he plotted the results in the form of curves representing the horse power of the engine on the one hand and the load imposed on the generator and the motor by the transmitter coil and its condensers on the other and put the curves together in a graph, filed as Exhibit 20. The steeply rising top portion of the load curve in this graph, which represents the operating portion of the load, is essentially similar to the corresponding portion of the load curve in Exhibit 7, which represents the operating portion of the load in the plaintiff's transmitting unit and is likewise similar to the load curve shown in Figure 7 of the drawings of the specification. And Mr. Doeringer stated that the load imposed by the defendant's transmitter coil and its condensers was a load of a resonant type and of such a character that on a graph it would be represented by a sharply rising curve and that on such a graph the brake horse power curve, representing the speed of the motor and the frequency of the generator, would intersect the sharply rising load curve on its rising side below its apex. This is exactly what Mr. Cartier's graph, Exhibit 20, shows.

Thus, there is justification for Mr. Cartier's conclusion, in reply to counsel for the plaintiff's question, that the defendant's transmitter coil was connectible with the generator to form a resonant load for the generator and acted to effect frequency relation thereof. This conclusion is in the very terms of Claim 8. In my opinion, the evidence fully supports this conclusion and I find accordingly.

In view of this finding I need not consider the evidence regarding the inspection made by Mr. Cartier of the operation of the defendant's transmitter coil when it was connected with a generator driven by a larger gasoline motor than the one referred to.

If this were all that need be considered there would be no difficulty in finding that the defendants infringed the plaintiff's rights under Claim 8, for it is clear that the defendant has taken the substance of the invention defined in it, namely, a transmitting unit for an electro-magnetic prospecting apparatus comprising a motor generator that can be carried on a man's back and a transmitter coil that can be connected with it so as to impose a resonant load on it to control and thereby regulate its frequency.

But it was contended for the defendants that they were not guilty of the alleged infringement by reason of the fact that in the defendant's transmitting unit the means of suspension of the transmitter coil described in Claim 8 was not used.

To appreciate this contention it is necessary to set out the difference on which counsel for the defendants relied. The means of suspension of the plaintiff's transmitter coil is described in paragraphs 10, 42 and 57 of the specification and illustrated in Figure 1 of the drawings. A tripod with a head block is set up on the ground and the transmitter coil is suspended from below the head block so that it hangs down freely. Consequently, it is maintained in a vertical plane by the force of gravity. It is also orientable in azimuth, that is to say, it can be pointed to the horizon in any direction with its vertical plane in alignment with the axis of the receiver coil at the station at which readings are to be taken.

The defendant's transmitting unit is set up differently, as described and illustrated in its own booklet, filed as Exhibit 4. The transmitter coil is held in the form of a rectangle by two collapsible spreader bars and at the point where these cross one another it is rigidly bolted to and suspended from a short mast rising from and rotating on a tripod set on the ground. There is a small spirit level on the tripod base plate which is used for the purpose of making the base plate level so that the transmitting coil may be held in a vertical plane. The base plate may be orientated so that the coil can be pointed at the station at which a reading is to be taken and when it is pointed in the desired direction it may be locked in that position by means of a small lock screw under the tripod base plate.

Thus, apart from the fact that the defendant's transmitter coil is suspended from a short mast above the base plate of the tripod, whereas the plaintiff's is suspended from below the head block of the tripod, the difference on which counsel for the defendants relied is that in the plaintiff's transmitting unit the transmitter coil is suspended "to hang freely in a vertical plane" so that its verticality is ensured by the force of gravity, whereas in the defendant's case the transmitter coil is bolted rigidly to the mast above the base plate and cannot hang in a vertical plane until after the

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base plate has been made level by the use of the spirit level on it. It should be noted that in both cases provision is made to ensure the verticality of the transmitter coil when it is pointed in the desired direction. The only difference is in the means whereby the desired verticality is accomplished. In the plaintiff's case it is done by the force of gravity, whereas in the defendant's case a spirit level has to be used.

It was on this difference in the means of ensuring the verticality of the transmitter coil that counsel for the defendants entirely relied for his defence against the allegation of infringement of Claim 8. He emphasized the use of the word "freely" in the Claim and contended, firstly, that the defendants' transmitter coil is not suspended and, secondly, that if it can be said to be suspended it is not suspended to hang "freely".

Counsel for the plaintiff put his argument in support of charge of infringement on several grounds. His first submission may be put briefly. It was, in effect, that the difference in the means of suspension of the transmitter coil in the two transmitting units is so small that it may fairly be said that the means used by the defendant falls within the express words "means to suspend said transmitter coil to hang freely in a vertical plane but orientable in azimuth".

I am unable to accept this submission. There is no dispute that when the defendant's transmitting unit is set up the transmitter coil is freely orientable in azimuth. There is support for this conclusion, if any is needed, in the evidence of Mr. Cartier that when he inspected the defendant's apparatus the transmitter coil was suspended in such a manner as to be freely orientable in azimuth. And, in my opinion, there is no doubt that the defendant's transmitter coil is suspended, notwithstanding the fact that it is rigidly bolted to the mast that rises from the base plate of the tripod. The defendant's own booklet, Exhibit 4, describes the coil as being suspended from a mast. Nor does it involve any distortion of language to say that it hangs. That follows from its suspension. And it is also a fact that it is suspended to hang in a vertical plane after the base plate has been made level by the use of the spirit level. That is the means used by the defendant for ensuring the verticality of the

coil. Thus it may fairly be said that the defendant's transmitting unit does include "means to suspend said transmitting coil to hang in a vertical plane but orientable in azimuth". But it is clear that the defendant's transmitter coil does not hang "freely" in a vertical plane as the plaintiff's coil does. The base plate of the tripod must be made level before it can hang in the desired plane. It cannot do so by itself. I must find, therefore, that the means of suspension of the transmitter coil used by the defendant does not come within the express terms of Claim 8 to which I have referred.

But it does not follow that I must accept the contention of counsel for the defendants that the plaintiff has limited the Claim to a specific means of ensuring the verticality of the transmitter coil, namely, that it must be suspended to hang "freely", and that, consequently, it must be held to its own limitation. There would be force in the contention if the Claim were for a means of suspension of the transmitter coil but Claim 8 is not a claim for such an invention at all. The invention defined in it is that of a transmitting unit in which the means of suspension of the transmitter coil is only an accessory that is neither new nor inventive. The need for verticality of the transmitter coil was well known in the art and there was nothing inventive in the idea of ensuring it by the force of gravity. The issue is not whether the means for ensuring the verticality of the transmitter coil used by the defendant infringed the means described in Claim 8 but whether the defendants' transmitting unit as a whole infringed the plaintiff's transmitting unit. Consequently, the decisions on which counsel for the defendants relied in support of this particular contention do not apply and I need not refer to them.

The real issue is whether the defendant's transmitting unit is substantially the same as the plaintiff's. If it is, then it is within Claim 8, in the sense that it is within its scope, even although the means of ensuring the verticality of the transmitter coil used by the defendants is not within the express terms describing that feature in the plaintiff's unit. It is the substance of the defendant's transmitting unit as a combination that must be considered.

The determination of this issue involves consideration of several questions. The main contention of counsel for the plaintiff in support of the charge of infringement of Claim

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8 was, in effect, that when the defendant embodied the idea of portability of the transmitting unit together with frequency control and regulation of the generator by the transmitter coil into its transmitting unit it took the substance, or the "pith and marrow", of the invention defined in the Claim and, consequently, infringed it, notwithstanding the fact that it did not use the means of ensuring the verticality of the transmitter coil described in it but used a different means, which was a mechanical equivalent of a feature of the plaintiff's invention that was not essential to it but merely accessory.

To this contention counsel for the defendants took strong exception. His submissions were, in effect, that by particularizing the means of ensuring the verticality of the transmitter coil, namely, that it should be suspended to hang "freely", the plaintiff had brought itself within the decision in *Submarine Signal Co. v. Henry Hughes & Son Ltd.*¹, that the requirement in the Claim that the transmitter coil should be suspended to hang "freely" was essential to the invention defined in it and, consequently, the doctrine of mechanical equivalency was not applicable, that the doctrine was antithetical to the modern requirement of precision of claims and no longer necessary in patent law and that, in any event, it should not be applied in the circumstances of the present case.

It has long been established that if a person takes the substance of an invention he is guilty of infringement even if his act does not in every respect fall within the express terms of the claim defining it. This basic principle was stated as early as 1875 by James L. J. in *Clark v. Adie*² in the following terms:

A patent for a new combination or arrangement is to be entitled to the same protection, and on the same principles, as every other patent. In fact, every, or almost every, patent is a patent for a new combination. The patent is for the entire combination, but there is, or may be, an essence or substance of the invention underlying the mere accident of form; and that invention, like every other invention, may be pirated by a theft in a disguised or mutilated form, and it will be in every case a question of fact whether the alleged piracy is the same in substance and effect, or is a substantially new or different combination.

¹ (1932) 49 R.P.C. 149.

² (1875) 10 Ch. Ap. 667 at 675.

When *Clark v. Adie* went to the House of Lords¹, the Lord Chancellor (Lord Cairns) discussed the various ways in which a patent for an apparatus could be infringed. In the course of his discussion he said, at page 320:

The infringer might not take the whole of the instrument here described, but he might take a certain number of parts of the instrument described; he might make an instrument which in many respects would resemble the patent instrument, but would not resemble it in all its parts. And there the question would be, . . ., whether that which was done by the alleged infringer amounted to a colourable departure from the instrument patented, and whether in what he had done he had not really taken and adopted the substance of the instrument patented. And it might well be, that if the instrument patented consisted of twelve different steps, . . ., an infringer who took eight or nine or ten of those steps might be held by the tribunal judging of the patent to have taken in substance the pith and marrow of the invention, although there were one, two, three, four or five steps which he might not actually have taken and represented upon his machine.

Lord Cairns appears to have been the originator of the mixed metaphor "the pith and marrow of the invention". While the metaphor has been criticized the principle enunciated in *Clark v. Adie* (*supra*) has been followed and applied in many cases, both in Great Britain and in Canada, and has never been repudiated: *vide*, for example *Proctor v. Bennis et al.*²; *Benno Jaffe und Darmstaedter Lanolin Fabrik v. John Richardson and Co. (Leicester) Ltd.*³ *The Incandescent Gas Light Company, Ltd. v. The De Mare Incandescent Gas Light System Ltd., et al.*⁴ *Marconi v. British Radio Telegraph and Telephone Company Ltd.*⁵; *British Thomson-Houston Co. Ltd. v. Metropolitan-Vickers Electrical Co. Ltd.*⁶; *The Rheostatic Company Limited v. Robert McLaren and Company Limited*⁷; *Lightning Fastener Co., v. Colonial Co., Ltd. et al.*⁸; *Dominion Manufacturers Ltd. v. Electrolier Manufacturing Co. Ltd.*⁹; *Samson-United of Canada et al. v. Canadian Tire Corp. Ltd.*¹⁰

¹ (1876-7) 2 A.C. 315.

² (1887) 4 R.P.C. 333 at 345, 352, 362.

³ (1894) 11 R.P.C. 93 at 112, 261.

⁴ (1896) 13 R.P.C. 301 at 331, 559, at 571, 579.

⁵ (1911) 28 R.P.C. 181 at 217.

⁶ (1928) 45 R.P.C. 1 at 25.

⁷ (1936) 53 R.P.C. 109 at 118.

⁸ [1932] Ex. C.R. 89 at 98, 100; (1934) 51 R.P.C. 349 at 367.

⁹ [1933] Ex. C.R. 141 at 146; [1934] S.C.R. 436 at 443.

¹⁰ [1939] Ex. C.R. 227; [1940] S.C.R. 386.

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In *Clark v. Adie (supra)* Lord Cairns did not specifically refer to the doctrine of mechanical equivalency but it is implied in his statement. Indeed, it is only a particular application of the general doctrine enunciated by him. That this is so was stated by Romer L.J. in *R.C.A. Photophone, Ld. v. Gaumont-British Picture Corporation Ld. and British Acoustic Films, Ld.*¹ where he said of it:

The principle is, indeed, no more than a particular application of the more general principle that a person who takes what in the familiar, though oddly mixed metaphor is called the pith and marrow of the invention is an infringer. If he takes the pith and marrow of the invention he commits an infringement even though he omits an unessential part. So, too, he commits an infringement if, instead of omitting an unessential part, he substitutes for that part a mechanical equivalent.

There was recognition of this fact in *Marconi v. British Radio Telegraph and Telephone Company Ld.*² There Parker J. stated the general principle that Lord Cairns had laid down in these terms:

It is a well-known rule of Patent law that no one who borrows the substance of a patented invention can escape the consequences of infringement by making immaterial variations. From this point of view, the question is whether the infringing apparatus is substantially the same as the apparatus said to have been infringed

and then said

where the Patent is for a combination of parts or a process, and the combination or process, besides being itself new, produces new and useful results; everyone who produces the same results by using the essential parts of the combination or process is an infringer, even though he has, in fact, altered the combination or process by omitting some unessential part or step and substituting another part or step, which is, in fact, equivalent to the part or step he has omitted.

This statement, which is confirmatory of the rule laid down by Cotton L.J. in *Proctor v. Bennis et al.*³, is in my opinion, the best statement of the doctrine of equivalency that can be found in the reports. Its application of course is subject to the limitation implied in the statement, which Parker J. put explicitly as follows:

The question . . . is a question of the essential features of the invention said to have been infringed. If that part of the combination, or that step in the process for which an equivalent has been substituted, be the essential feature, or one of the essential features, then there is no room for the doctrine of equivalents.

¹ (1936) 53 R.P.C. 167 at 197.

² (1911) 28 R.P.C. 181 at 217.

³ (1887) 4 R.P.C. 333.

Thus it is established law that if a person takes the substance of an invention he is guilty of infringement and it does not matter whether he omits a feature that is not essential to it or substitutes an equivalent for it. The case of *The Incandescent Gas Light Company Ltd. v. The De Mare Incandescent Gas Light System, Ltd. et al (supra)* is an early illustration of the former and the case of *Benno Jaffe und Darmstaedter Lanolin Fabrik v. John Richardson and Co. (Leicester), Ltd. (supra)* and early illustration of the latter.

In the *Incandescent Gas Light Company case (supra)* Willis J. held that the defendants had taken the substance of the patentee's invention, notwithstanding the fact that they used a prescription that was somewhat different from that described in the specification and omitted a substance that had been specified in the specification and accordingly included in the patentee's claim. On appeal to the Court of Appeal¹ his judgment was unanimously affirmed.

And in the *Benno Jaffe und Darmstaedter Lanolin Fabrik case (supra)* the facts were that the defendants adopted in substance the whole process of the patent, the only difference being that instead of using a centrifugal machine they substituted a settling tank to do what the centrifugal machine was intended to do. Romer J. held that the use of the centrifugal machine was not of the essence of the invention and that since the defendants had taken the essence they had infringed. At page 112, he said:

They appear to me to have taken the essence, or what is sometimes called the pith and marrow, of the invention. The use of the centrifugal machine was not of the essence of the invention. That machine was a well known method of separating mechanically materials of different specific gravity, and was, to my mind, referred to in the Specification as being and because it was the most speedy and efficient known means for effecting the separation. The mechanical separation, by allowing gravity to act on such materials when deposited in a vessel in the ordinary way is a well known equivalent, though not so speedy and efficacious, and the Defendants cannot by adopting this, when they in all essential matters take and use the Plaintiff's invention, be heard to say that they are not using that invention or infringing the patent.

The Court of Appeal² affirmed the decision of Romer J., holding that the use of the centrifugal machine was not an essential part of the invention, that the defendants had taken every step of the plaintiff's process except the centrifugal machine, that the substitution of a depositing tank

¹ (1896) 13 R.P.C. 559.

² (1894) 11 R.P.C. 261.

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for the centrifugal machine was the substitution of a mere manufacturing equivalent and that the defendants had accordingly infringed. I might add that the language of Romer J. is, *mutatis mutandis*, appropriate to the facts of the present case.

And it is also established law that a plaintiff can resort to the doctrine of equivalency only in respect of a feature of the invention claimed by him that is not essential to it. In every case where it is sought to apply the doctrine a particular issue arises, namely, whether the feature of the invention in respect of which an equivalent is alleged to have been used is essential to the invention. Thus, for example, in the present case, the particular issue is whether the means of suspension of the transmitter coil referred to in Claim 8 is an essential feature of the invention. If it is, the doctrine of equivalency is inapplicable; if it is not, then it must be determined whether the means of ensuring the verticality of the transmitter coil used by the defendants is an equivalent of the means referred to in the Claim.

The doctrine of equivalency has been applied in a great many cases. Most of the decisions previously referred to as instances in which the principle enunciated by Lord Cairns in *Clark v. Adie (supra)* was followed are instances of its application.

Counsel for the defendants sought several avenues of escape from it. He relied particularly on the decision of the Court of Appeal in *Submarine Signal Co. v. Henry Hughes & Son Ltd. (supra)*. His submission was, in effect, that since Claim 8 describes the element of the means of suspension of the transmitter coil particularly and differently from its description in the other claims it cannot be said that the element thus particularly and differently described is not essential to the invention defined in it, that, consequently, the principle of mechanical equivalency is inapplicable and that since the defendant does not use the means of suspension of the transmitter coil described in the Claim the defendants do not infringe it.

I do not agree that the *Submarine Signal Co.* case (*supra*) supports this submission. In that case letters patent were granted in respect of "improvements in or relating to measurement by the use of sound waves". There were 12 claims in the patent of which claims 1, 2, 3, 7 and 9 and 11 were

in suit. Claims 1, 2 and 3 were for a means for measuring by the use of sound waves in which a sound was emitted and its return or echo was received by a receiving mechanism or a receiving transmitter and an indicating instrument. Claims 7 and 9 were for a means for measuring sound waves comprising a sound emitter and a receiving mechanism or device. Claim 11 was for a means for measuring by the aid of sound waves in which an electric oscillator was used. It read as follows:

11. Means for measuring by the aid of sound waves, in which an electric oscillator is adapted to be intermittently excited by the aid of a rotating contact device and the echo is received by the oscillator (or by an independent receiving transmitter) intermittently connected to an indicating or recording instrument through part of the said rotating contact device, which is provided with movable contact brushes the displacement of which measures the time interval between the sound emission and the reception of its echo.

In the trial Court claims 1, 2, 3, 7 and 9 were held invalid but claim 11 was held valid and infringed by the defendants who had not used an electric oscillator but a mechanical equivalent of it. In the Court of Appeal it was held that claim 11 must be limited to the particular kind of sound emitter described in it as an electric oscillator, that, consequently, the doctrine of mechanical equivalents was inapplicable and that since the defendants had not used an electric oscillator as their sound emitter they had not infringed the claim. Lord Hanworth held that claim 11 indicated a particular combination in which an electric oscillator was intermittently excited by the aid of the rotating device and that there was no similitude between the instrument used by the defendants and that indicated in claim 11. Lawrence L.J. considered that the first integer of the combination described in the claim was an electric oscillator adapted to be intermittently excited by the aid of a rotating device and that this integer dominated the whole claim. He referred to the fact that in the claims preceding claim 11 the general expression "sound emitter" was used but in claim 11 it was changed to the particular one and held that the obvious inference to be drawn from the change was that the claim was intended to be limited to a particular kind of emitter described as an electric oscillator and, that being so, there was no room for the application of the doctrine of mechanical equivalents. Romer L.J. held that since the patentee in

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claim 11 had substituted the expression "an electric oscillator" for the expression "sound emitter" he must have intended something by that change and that it was useless for him to say that an electric oscillator was not of the essence of the invention claimed in claim 11.

It is, in my opinion, impossible to read the judgments in the *Submarine Signal Co.* case (*supra*) without coming to the conclusion that the Court of Appeal considered that the "electric oscillator adapted to be intermittently excited by the aid of a rotating contact device" was not only an essential integer of the invention defined in claim 11 but also, as Lawrence L.J. put it, the dominating one. Moreover, it would be reasonable, in my opinion, to deduce from the reasons for judgment that the decision of the Court of Appeal would have been the same even if claim 11 had been the only claim in the patent.

I find support for this opinion in the statement of Romer L.J. in *R.C.A. Photophone, Ld. v. Gaumont-British Corporation Ld. and British Acoustic Films, Ld.*¹ There, seemingly, he found it necessary to explain his reasons for judgment in the *Submarine Signal Co.* case (*supra*) as follows:

I thought that the patentee had clearly indicated that an electric oscillator was an essential feature of the invention described in his eleventh claim. I consequently held that the defendant, who had not used an electric oscillator, but something that might properly be described as a mechanical equivalent of it, had not infringed. Further reflection has not caused me to change the view that I then expressed. The patentee in that case had made the electric oscillator part of the pith and marrow of his invention and the principle of mechanical equivalent was inapplicable.

There is no suggestion in this statement that Romer L.J. had based his decision on the fact that the patentee had described an element of the invention particularly and differently from the description of the same element in another claim.

Consequently, I have no hesitation in finding that the *Submarine Signal Co.* case (*supra*) is not an authority for saying that if an element in a combination is particularly described in a claim and differently from its description in another claim or in other claims it thereby becomes an essential element in the invention defined in the claim so as to oust the application of the doctrine of equivalency. Such a statement would, in my opinion, be contrary to prin-

¹ (1936) 53 R.P.C. 167 at 197.

principle and authority. The essentiality of an element in a combination cannot possibly be determined automatically by such an arbitrary test. The nature of the element and its importance in the combination must be considered.

Moreover, the decision in the *Submarine Signal Co.* case (*supra*) is not applicable to the present case. There, as Romer L.J. explained, the patentee had clearly indicated that the electric oscillator described in claim 11 was an essential element of the invention defined in it, but it would be a distortion of language to say that the patentees in the present case had similarly clearly indicated that the means of suspension of the transmitter coil referred to in Claim 8 was an essential element of the invention defined in it, when, as I have already stated, it was common knowledge in the art that the transmitter coil should be in a vertical plane and there was nothing new or inventive in ensuring its verticality by the force of gravity and when its use makes no difference in the result of the combination of which it is only an accessory element as compared with that of the defendants' transmitting unit with a different but equivalent means of ensuring the verticality of the transmitter coil and its orientability in azimuth.

Counsel for the defendants urged that the doctrine of equivalency had its origin at a time when it was not necessary to include claims in the patent specification and the courts, consequently, had to look to the disclosures to see what the essence of the invention covered by the specification was, that after claims were made obligatory in 1883 there was not the same need for the doctrine since the inventor could define his invention by his claims and thus himself do what the courts had previously done, *vide British United Shoe Machinery Company Ltd. v. A. Fussell & Sons Ltd.*¹, that as claims became more precise there was correspondingly less need for the doctrine, that the later decisions applying it were holdovers from the earlier period, that the doctrine had been in a deep sleep in Great Britain since the decision in the *Rheostatic v. McLaren* case (*supra*) in 1936 and in Canada since the decision in the *Dominion Manufacturers Ltd.* case (*supra*) in 1934, that the doctrine was antithetical to the modern concept of patent law requiring definiteness in claims since its application would

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¹ (1908) 25 R.P.C. 631 at 650.

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allow the elimination of limitations in claims and make for uncertainty in their scope, that it was no longer necessary to protect the inventor since he had the power to define his invention in his claims, either broadly or subject to limitations as he might choose to do, and that, in any event, it should not be applied in the present case since the inventors had determined the essentiality of the means of suspending the transmitter coil by prescribing that it be suspended to hang "freely".

These submissions are important and require careful consideration. It may be conceded that there is not the same need at the present time for the application of the doctrine of equivalency as there was before the inclusion of claims in a patent specification became obligatory and the inventor was required to define his invention in them. But, while that is so, there is no justification for holding that the doctrine has been abrogated: *vide* the statement of Duff C.J. in *Smith Incubator Co. v. Seiling*¹. As already stated, the doctrine is only a particular application of the general doctrine that a patent may be infringed by taking the substance of the invention covered by it and, consequently, it must continue to exist as long as the general doctrine survives. The doctrine was approved by Lord Morton of Henryton in *Raleigh Cycle Coy. Ltd. et al. v. H. Miller and Coy. Ltd.*² And its continued existence was recognized by the Supreme Court of Canada in *Scully Signal Co. v. York Machine Co. Ltd.*³, although it was not applied in the circumstances of that case.

In the United States the doctrine is in full force: *vide*, for example, *Graver Tank & Mfg. Co., Inc., et al. v. The Linde Air Products Company*⁴. There Mr. Justice Jackson, delivering the opinion of the Supreme Court of the United States said, at page 330:

The essence of the doctrine is that one may not practice a fraud on a patent. Originating almost a century ago in the case of *Winans v. Denmead*, 15 How. 330, it has been consistently applied by this Court and the lower federal courts, and continues today ready and available for utilization when the proper circumstances for its application arise. "To temper unsparring logic and prevent an infringer from stealing the benefit of an invention" a patentee may invoke this doctrine to proceed against the producer of a device "if it performs substantially the same function in substantially the

¹ [1937] S.C.R. 255 at 258.

² (1948) 65 R.P.C. 141 at 160.

³ [1955] S.C.R. 518.

⁴ (1950) 85 U.S.P.Q. 328.

same way to obtain the same result." *Sanitary Refrigerator Co. v. Winters*, 280 U.S. 30, 42 (3 U.S.P.Q. 40, 44). The theory on which it is founded is that "if two devices do the same work in substantially the same way, and accomplish substantially the same result, they are the same, even though they differ in name, form, or shape." *Machine Co. v. Murphy* (97 U.S. 120, 125).

This statement is plainly applicable in the present case. *Vide*, also, *Ingersoll Milling Machine Co. v. General Motors Corp.*¹

The general doctrine was applied recently by the Court of Appeal in *Multiform Displays Ltd. v. Whitmarley Displays Ltd. (formerly Reay and Davis Limited)*² and the fact that its judgment was subsequently reversed by the House of Lords³, which held that the "pith and marrow" of the invention there in question had not been taken, does not detract from the fact that the existence of the general doctrine has been recognized in England as recently as 1957.

And finally I refer to the decision of the Court of Appeal in *Birmingham Sound Reproducers Ltd. v. Collaro Ltd. and Collaro Ltd. v. Birmingham Sound Reproducers Ltd.*⁴ In that case counsel for the respondent made submissions similar to those of counsel for the defendants in the present case but they were not accepted. At page 244, Lord Evershed M.R. made the following statement:

In our judgment, it is not open to this Court on the authorities to accept Sir Lionel's submission to the effect that the doctrine of "pith and marrow" or "substance" is dead. Nor do we propose to attempt any comprehensive definition of its scope. We think it can, generally speaking, be taken to be confined to unessential differences, though we appreciate that the distinction between that which is essential and that which is unessential may be difficult to draw.

There is no difference in principle between this statement and that of Parker J. in the *Marconi* case (*supra*).

Consequently, I have no hesitation in finding that the doctrine of equivalency is still in effect in Canada and "available for utilization when the proper circumstances arise".

And I disagree with the submission that the doctrine is antithetical to the modern concept of patent law that claims must be definite and that it is no longer necessary in view

¹ (1953) 97 U.S.P.Q. 110 at 129; (1953) 98 U.S.P.Q. 54.

² [1956] R.P.C. 143.

³ [1957] R.P.C. 260.

⁴ [1956] R.P.C. 232.

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of the statutory requirement that an inventor must define his invention. In my opinion, the retention of the doctrine is still necessary to give inventors the protection against infringers to which they are entitled and its abandonment would encourage piracy of inventions by taking their substance and omitting or varying some non-essential feature. In amplification of this opinion I adopt the statement of Mr. Justice Jackson in the *Graver Tank* case (*supra*), at page 330:

Courts have also recognized that to permit imitation of a patented invention which does not copy every literal detail would be to convert the protection of the patent grant into a hollow and useless thing. Such a limitation would leave room for—indeed encourage—the unscrupulous copyist to make unimportant and insubstantial changes and substitutions in the patent which, though adding nothing would be enough to take the copied matter outside the claim, and hence outside the reach of law. One who seeks to pirate an invention, like one who seeks to pirate a copyrighted book or play, may be expected to introduce minor variations to conceal and shelter the piracy. Outright and forthright duplication is a dull and very rare type of infringement. To prohibit no other would place the inventor at the mercy of verbalism and would be subordinating substance to form.

Moreover, the desired objective of the statutory requirement that the inventor must define his invention in his claims, namely, that the public should know the precise limits of the monopoly granted by the patent is sufficiently safeguarded by the fact that the doctrine is applicable only in respect of those features of an invention that are not essential. Thus, as I see it, the retention of the doctrine with this limitation on its applicability, far from being antithetical to any concept of patent law, supports the basic principle that the inventor is entitled to adequate protection of the monopoly granted to him in consideration of the contribution to society that his invention has made.

It follows that in every case where it is sought to apply the doctrine of equivalency it must be determined whether the feature in respect of which it is sought to be applied is an essential one.

It is in this area that it is difficult to reconcile the decisions. There are some statements to the effect that the Court must look only to the language of the claim to ascertain what the essence of the invention defined by it is. The outstanding statement of this sort is that of Romer L.J. in

*R.C.A. Photophone, Ltd. v. Gaumont-British Picture Corporation Ltd. and British Acoustic Films, Ltd.*¹, where he said:

it is not the province of the Court to guess what is or what is not the essence of the invention; that is a matter to be determined on an examination of the language used by the patentee in formulating his claims.

And in *J. K. Smit & Sons, Inc. v. McClintock*² Duff C.J. quoted with approval the remarks of Romer L.J. in which this statement was included.

The first part of the statement, namely, that it is not the province of the Court to guess what is or what is not the essence of the invention, cannot be challenged. Its truth is manifest but it does not necessarily follow that its essence is a matter to be determined on an examination of the language used by the patentee in formulating his claims. If the statement means that the determination of the essence of the invention must in all cases be made exclusively and solely "on an examination of the language used by the patentee in formulating his claims", without resort to any other aid and without regard to any evidence of fact, then, in my opinion, it is too wide and not in accordance with established authority.

I find it difficult to think that Lord Romer intended his statement to have as wide an application as his words indicate. It must be kept in mind that a patent specification, which includes the claims, is addressed to persons skilled in the art and must be construed in the light of the common knowledge which such persons are assumed to have. There are, no doubt, cases in which a claim is expressed in such plain and common language and the essence of the invention is so clear that the claim can be construed and the essence of the invention determined without any aid beyond the language of the claim. In such cases there is no difficulty in following the instruction contained in Lord Romer's statement. But in the majority of cases if the Court is to construe the claim in the light of the common knowledge of the art and as persons skilled in the art would understand it, the Court must, as far as possible, be put into the same position as a person skilled in the art would be. How else could it perform its function properly? This means that there must be evidence of the state of the art at the date

¹ (1936) 53 R.P.C. 167 at 197.

² [1940] S.C.R. 279 at 284.

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of the patent and such other information as may be necessary to a proper construction of the claim and determination of the essence of the invention defined in it. Consequently, Lord Romer's statement ought not to be read by itself but rather as subject to the qualification that I have indicated.

The proper approach to the ascertainment of the essential features of an invention was stated by Parker J. in the *Marconi* case (*supra*), in the following terms, at page 218:

to ascertain the essential features of an invention, the specification must be read and interpreted by the light of what was generally known at the date of the Patent.

Moreover, the statement is inconsistent with the decisions in which certain features of an invention have been held to be non-essential, notwithstanding their inclusion in a claim defining it. Here I should refer to the particular submission of counsel for the defendants that the doctrine of equivalency should not be applied in the present case by reason of the fact that the inventors had themselves determined the essentiality of their means of suspending the transmitter coil by prescribing that it was to be suspended to hang "freely" and could not be heard to say that this requirement was not an essential feature of the invention. I have no hesitation in rejecting the submission thus made. There are several reasons for doing so. In the first place, it is contrary to principle. Its acceptance would be tantamount to holding that a person could escape a charge of infringement merely by varying some feature of an invention regardless of whether it was essential in fact or not. Moreover, it is contrary to the established authority of such cases as *Clark v. Adie* (*supra*) and the many cases that have followed it. To argue that because a feature of an invention is included in a claim it must be regarded as essential to the invention defined in it is to deny the whole doctrine of infringement by taking the substance of the invention, for that doctrine assumes that there may be features of the invention that are not essential to it notwithstanding their inclusion in a claim defining it.

The cases in which the doctrine of equivalency has been applied demonstrate that the mention of a feature of an invention in a claim does not necessarily make it essential to the invention. There would be no room at all for the

doctrine of equivalency if the law were otherwise. This was demonstrated as early, at least, as 1894 in the *Benno Jaffe und Darmstaedter Lanolin Fabrik* case (*supra*), to which I have already referred.

The decision in *Marconi v. British Radio Telegraph and Telephone Company Ltd.* (*supra*) is a further illustration. In that case claim 1 of the plaintiff's patent read as follows:

1. A transmitter for electric wave telegraphy consisting of a spark producer having its terminals connected through a condenser with one circuit of a transformer the other circuit being connected to a conductor and to earth or a capacity the time period of electrical oscillations in the two circuits being the same or harmonics of each other.

and the plaintiff alleged that the defendant had infringed his patent by the sale of a transmitter in which the circuits were linked together by an auto-transformer, instead of by a two-coil transformer as described in claim 1. Parker J. held that the use of a two-coil instrument was not an essential feature of the plaintiff's invention and that the defendant had infringed the patent, notwithstanding the difference in the necessary inductive linkage.

The decision in *The Rheostatic Company Limited* case (*supra*) is to the same effect. There the Lord Justice Clerk (Aitchison) said, at page 118:

The broad test of infringement is whether the alleged infringer has taken the real substance of the invention as claimed, what Lord Cairns called "the pith and marrow" of the invention. The devices need not be absolutely similar, there may be variation, either addition or subtraction or substitution, and in each case it must be a question of fact whether the variation makes any real difference or is merely a distinction without a difference. An infringement is rarely an exact replica of the device infringed . . .

This statement was approved by Lord Hill Watson in *Lyle and Scott Ltd. et al. v. Wolsey Ltd. et al.*¹

There is a further illustration of the same kind in *Dominion Manufacturers Ltd. v. Electrolier Manufacturing Co. Ltd.* (*supra*). This was an action for infringement of a patent relating to handles for use on caskets and other receptacles. Claim 2 was as follows:

2. A handle comprising a base member having an opening and provided with a pivot bar extended across the opening; and a grip insertible into the opening and having a slot receiving the pivot bar, the slot defining a bendable finger in the grip, the finger having a lug adapted to engage

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¹ (1954) 71 R.P.C. 395 at 417.

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the base member at the lower edge of the opening, the finger and the lug co-operating with the base member, when the grip is raised, to secure a bending of the finger, a partial closing of the slot and a pivotal mounting of the grip on the bar.

The defendant's handle differed from the plaintiff's in that the two members of its handle were locked by a mechanical operation instead of by hand, as described in the claim. The then President of this Court held that this difference was not sufficient to save the defendant from the charge of infringement, its means of locking the handle being the equivalent of the means used by the plaintiff. His decision was affirmed by the Supreme Court of Canada. At page 443, Rinfret J., as he then was, said:

What the appellant did—and in that his infringement truly consists—was to take the idea which formed the real subject matter of the invention. It does not matter whether he also adopted the substitution of the two holes for the bar in the pivoting means. The precise forms of these means was immaterial.

And so also in the case of *Samson-United of Canada Ltd. et al. v. Canadian Tire Corpn. Ltd. (supra)*. There the issue really was whether a certain bow-like slot in which the patentee's rubber blades were inserted was an essential to the invention defined in claim 8. The then President of this Court held that it was not and that the variations adopted by the defendant were the equivalent of the features in the plaintiff's device. His decision was affirmed by the Supreme Court of Canada. There Duff C.J., speaking of the means referred to, said, at page 387:

I have come to the conclusion, however, that this is only a particular means for maintaining the cupped shape of the base and body of the blade and thereby imparting to it the necessary rigidity; and, as a particular means only for maintaining this rigidity which is the essential thing, it is non-essential . . . The substance of the invention lies in shaping the blade in such fashion as to maintain the rigidity of its base and body while leaving the edges sufficiently flexible to be harmless. In that I think there was novelty and invention and, in substance, this has, I think been taken.

The fact that the slot was included in claim 8 did not make it essential to the invention.

Thus it is established beyond dispute that the inclusion of a particular feature of an invention in a claim does not necessarily make it an essential one so as to exclude the application of the doctrine of equivalency.

Some other way of ascertaining whether a particular feature of an invention is an essential one or not must be used. The proper course to be followed becomes clear when a distinction is drawn between the construction of a claim defining an invention and the ascertainment of whether such invention has been infringed. The determination of what the invention is must be made "on an examination of the language used by the patentee in formulating his claims", as Lord Romer stated, for it is only the invention as defined in a claim that falls to be considered. But the ascertainment of whether the invention has been infringed, once the claim defining it has been properly construed, is a different matter.

In my opinion, Lord Romer's statement, if read by itself, did not observe this distinction. The distinction is of the utmost importance for infringement is a question of fact. And since there is infringement if the substance of the invention is taken it becomes necessary to ascertain what the substance of the invention is and that question is one of fact. This was plainly stated by James L.J. in *Clark v. Adie (supra)* in the terms already cited:

it will be in every case a question of fact whether the alleged piracy is the same in substance and effect, or is a substantially new and different combination.

And since infringement by using a mechanical equivalent of a non-essential feature of the invention is merely a particular form of infringement by taking the substance of the invention it follows as a matter of course that the question whether the particular feature is essential to the invention or not is one of fact. Certainly, there can be no doubt of this in cases where the invention is a combination and the feature is an element of it.

There is support for this opinion in a long line of authorities. There is, of course, the classic statement of Lord Cairns in *Clark v. Adie (supra)*, at page 120, which I have already cited.

There is also the admonition of Wills J. in *The Incandescent Gas Light Company* case (*supra*), at page 330, that in determining whether there has been infringement by taking the substance of an invention it is necessary to consider "the relative magnitude and value of the things taken and of those left or varied". This seems sound for how else

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can a realistic view be taken of what is essential to the invention and what is not? After this admonition, Wills J. went on to say, at page 330:

It is seldom that the infringer does the thing, the whole thing, and nothing but the thing claimed by the specification. He always varies, adds, omits, and the only protection the Patentee has in such a case lies, as has been often pointed out by every Court, from the House of Lords downwards, in the good sense of the tribunal which has to decide whether the substance of the invention has been pirated.

There is thus no doubt that Wills J. considered that the question whether a particular feature of an invention is an essential one or not is one of fact.

The same opinion is implied in the definition of what constitutes an essential element of a combination invention laid down by Lord Davey in *Consolidated Car Heating Company v. Came*¹ in the following terms:

it must be a material element for the successful working of the machine, and not a mere detail in the complete machine which may be varied or omitted altogether without serious detriment to the successful working of it.

It is obvious from this definition that the determination of whether a particular feature of a combination invention is of the essence of the invention cannot possibly be made solely "on an examination of the language used by the patentee in formulating his claims". It must depend on the facts of the particular case. There is another important passage in Lord Davey's judgment. It had been contended on behalf of the appellant that the respondent had taken the substance of the invention and it appears that the Chief Justice of the Quebec court from which the appeal was taken had considered that the matter was to be determined simply on reading the specification. Lord Davey disagreed with this view. At page 765, he said:

Their Lordships cannot adopt the view apparently taken by the learned Chief Justice that the matter is to be determined simply on reading the Specification. They think that according to established authority the Court is bound to decide, as a fact, whether the alleged infringer has taken the substance of the invention, and in forming an opinion on that question to have regard to the evidence as to the existing state of knowledge on the subject at the date of the Patent, and as to the operation of the machine. Aside from the fact that Lord Davey was delivering the judgment of the Judicial Committee of the Privy Council in

¹ (1903) 20 R.P.C. 745 at 746.

an appeal from Canada, his statement is more in accord with the weight of authority than the statement of Lord Romer to which I have referred. Moreover, Lord Davey found as a fact that a particular feature of the invention before the Board was a very material element in it and that since the respondent's device did not include that feature he had not infringed. Lord Davey's statement plainly indicates that there is no general rule for determining whether a particular feature of an invention is essential to it or not. The determination depends on the facts of each case.

A similar opinion was expressed by Lord Wright M.R. in the *R.C.A. Photophone* case (*supra*) where he said, at page 189:

It has often been said that no general definition can be given of what are mechanical (or chemical, or optical, or electrical) equivalents. In each case of alleged infringement the Court must decide according to its good sense and on the special facts of each case whether the defendant's invention is, in substance, the same as or different from that of the plaintiff's. In old days the question was one of fact for the jury. The cases cited are merely illustrations of what decisions, in other circumstances, have been arrived at. But it is clear that there can be no question of mechanical equivalent unless the change in the infringing machine is merely a colourable difference in some part or integer, and the machine as a whole is intended to produce the same result by what, to the instructed mind, are the same means.

Reference may also be made again to the statement of the Lord Justice Clerk (Aitchison) in the *Rheostatic Company Limited* case (*supra*), at page 118, which I have cited earlier.

That infringement is a question of fact was plainly stated in the House of Lords by Lord Morton of Henryton in *Raleigh Cycle Coy. Ltd. et al. v. H. Miller and Coy. Ltd.*¹ And there is also the earlier statement in the House of Lords by Viscount Dunedin in *British Thomson-Houston Co. Ltd. v. Metropolitan-Vickers Electrical Co. Ltd.*² where he said:

The law as to infringement of combinations is well settled. Of course, if the infringer takes the combination stock lock and barrel there is no question, but it is very easy to modify a combination and the modification may be effected by either addition or subtraction. The question for the Court is not that of detecting absolute similarity, but is that of seeing whether the pith and marrow of the combination, to use Lord Cairns' phrase, has been taken, and if that has been done there is an infringement in spite of any modification.

¹ (1948) 65 R.P.C. 141 at 160.

² (1928) 45 R.P.C. 1 at 25.

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I have no hesitation in finding as a fact that the feature of the invention defined in the claim referred to as "means to suspend said transmitting coil to hang freely in a vertical plane but orientable in azimuth" is not an essential one. The essence of the invention is a transmitting unit that is portable and at the same time effects frequency regulation of the generator by a resonant load imposed on it by the transmitter coil. All that the feature in question is intended to secure is that the transmitter coil should be held in a vertical plane and be orientable in azimuth. The importance of having the transmitter coil in a vertical plane while readings are being made as well known in the art. Cartier stated that it had to be vertical and Lundberg's evidence was to the same effect. There was, therefore, nothing new or inventive in the idea of having a means of ensuring such verticality. The evidence also shows that there were various ways of maintaining the transmitter coil in a vertical plane. So long as there are such means it does not matter what means is used. The means described in the claim is a convenient one in that it achieves the desired verticality by the force of gravity. There was nothing new or inventive in this. There are other kinds of means, including that used by the defendants, which would also serve the purpose. Under the circumstances, I do not see how the means referred to in the claim could possibly be considered an essential feature of the invention defined therein. It is merely an accessory which could be replaced by a mechanical equivalent without making any real difference to the invention and I so find.

Whether the means of maintaining the verticality of the transmitter coil used in the defendant's transmitting unit is a mechanical equivalent of the means referred to in the claim is clearly a question of fact. And there cannot be any doubt that it is. In the defendant's case, as already explained, a spirit level is used to ensure the desired verticality whereas in the plaintiff's case the same result is accomplished by the force of gravity. In each case the transmitter coil is maintained in a vertical plane while readings are being made so that neither means makes any different contribution to the correctness of the readings from that made by the other.

Moreover, the difference in the means of maintaining the transmitter coil in a vertical plane has no bearing on the essence of the invention defined in the claim. The basic issue is whether the defendant's transmitting unit as a whole is substantially the same as the plaintiff's, notwithstanding the difference referred to. Each transmitting unit is a combination. In *The King v. American Optical Co.*¹ I set out the test of what constitutes a combination invention as follows:

It is not necessary to the validity of a combination invention that its elements should be new. Indeed, all of them may be old . . . If the combination is the invention, then it is immaterial that the elements are old; . . . It is essential to the validity of a patent for a combination invention, apart from considerations of novelty and inventive ingenuity that the combination should lead to a unitary result rather than a succession of results, that such result should be different from the sum of the results of the elements and that it should be simple and not complex. The elements may interact with one another provided they combine for a unitary and simple result that is not attributable to any of the elements but flows from the combination itself and would not be possible without it.

If this test is applied to each of the transmitting units the simple and unitary result is the same in each case, namely, portability of the transmitting unit and at the same time frequency regulation of the generator by a resonant load imposed on it by the transmitter coil, as previously explained. There was no doubt about the matter of portability. That was plainly the same in each case. And the evidence of Mr. Cartier and Mr. Doeringer, to which I have already referred, proves conclusively that the feature of frequency regulation of the generator by the transmitter coil was the same in each case, namely, that the load imposed by the transmitter coil on the generator and by it on the motor operates as a control of the frequency of the generator and effects frequency regulation of it.

Since the essence of the defendant's transmitting unit is thus the same as that of the plaintiff's invention there cannot be any difference in the results of their respective operations in the field since in each case the transmitter coil is maintained in a vertical plane while readings are being taken and in each case the transmitter coil is orientable in azimuth. The case falls squarely within the statement of Parker J. in the *Marconi* case (*supra*) which I cited earlier.

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¹ [1950] Ex. C.R. 344.

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This is thus plainly a case where the doctrine of mechanical equivalency is properly applicable. Indeed, it is the very kind of case in which its retention is desirable. Just because the defendant has chosen a different means of ensuring the verticality of the transmitter coil from that referred to in the claim the defendants should not be allowed to escape from the charge of infringement since the difference does not make any change in the essential elements of the two transmitting units and the two combinations function in substantially the same way to accomplish the same result. Nor should the defendants be allowed to escape by reason of the fact that their means of ensuring the verticality of the transmitter coil is not as convenient as the plaintiff's.

Consequently, I find as a fact that the defendant's transmitting unit is substantially the same as the plaintiff's and that the defendants have taken the substance of the invention defined in Claim 8. The defendants have therefore infringed the plaintiff's rights under it.

I now turn to the question whether the plaintiff's rights under Claim 11 have been infringed. In the statement of admissions, filed as Exhibit 2, the defendants made the following admission:

2. That the defendant, Sharpe Geophysical Surveys Limited employs the following prospecting method. It uses (a) a vertically supported transmitting coil which is orientable in azimuth and transmits a low frequency alternating magnetic field (e.g. approximately 900 cycles per second), and (b) a detecting coil mounted on a pole with its principal plane at right angles to the longitudinal axis of the pole. In use, the pole is generally in line with the plane of the transmitting coil. A clinometer is mounted on the pole.

In order to detect the influence of a conductor metal on the electromagnetic field created by the transmitter coil, the operator swings the search coil by placing a free end of the pole on the ground and swinging the pole from its point of support on the ground. The disturbance produced by the conductor material is observed by observing the angular position out of the vertical of the axial pole for minimum signal in the search coil.

In my opinion, this admission substantially supports the plaintiff's contention that the said defendant has infringed its rights under the Claim.

The prospecting method referred to in Exhibit 2 was described in detail in the defendant's Booklet "C", filed as Exhibit 4. I have already described the manner in which its transmitter coil is set up and Figure 9 of Exhibit 4 shows that in the field the transmitter coil is held in a vertical position. The booklet specifies that it is energized by means

of a small portable gasoline motor driven generator, which indicates the creation of a low frequency alternating magnetic field within the meaning of the Claim. Figure 8 of Exhibit 4 shows the receiver coil mounted on a staff with a clinometer at the top. It has attachments similar to those on the plaintiff's receiving unit. The receiver coil itself, according to Figure 8, is about one-third up the staff, but Mr. Doeringer described it as being about a foot and a half from the bottom. It is clear from Exhibit 4 that the alignment feature specified in Claim 11 was adopted. It is also clear that when the operator of the receiver coil was ready to make a reading at a station after the transmitter coil had been orientated towards the receiver coil he tilted the receiver staff to right or left about its point on the ground until he found the position of "The Null Point" and then made his reading for the station based on the angle of deviation shown by the needle of the clinometer.

Counsel for the defendants contended that the prospecting method in question differed from that defined in Claim 11 in two respects and, consequently, did not infringe it. His first ground of defence was that the Claim was limited to a method in which the transmitter coil was "suspended to hang vertically" and that the transmitter coil under consideration was not so suspended. I have already dealt with a similar contention in respect of Claim 8 and I repeat my opinion that the transmitter coil when in use was suspended, notwithstanding the fact that it was rigidly bolted to the mast that rose from the base plate of the tripod on which the coil was mounted. And I draw attention again to the fact that the defendant's own Exhibit 4 describes its transmitter coil as being suspended from a mast. Moreover, there is no doubt that it was suspended to hang. And Exhibit 4 establishes by its description and its figures that when the transmitter coil was in use in the field it was suspended so that it hung vertically. The fact that this was brought about by the use of a spirit level to make sure that the base plate of the tripod was horizontal does not alter the fact that when the transmitter coil was being used in the prospecting method that is said to infringe Claim 11 it was suspended in such a way that it did hang vertically. It was, therefore, within the express terms of the Claim relating to it.

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The other ground of defence was that it could not properly be said that the receiver coil, being only a foot and a half from the ground, although Figure 8 of Exhibit 4 shows that it was considerably higher, was swung on an extended axis. Counsel for the defendants conceded that if the portion of the pole or staff below the receiver coil could properly be called its extended axis there would be infringement. In my judgment, there is no doubt that the portion in question, even if only a foot and a half long, could properly be described as an extension of the receiver coil's axis and the statement in Exhibit 4 that the operator of the receiver coil tilted the staff on which it was mounted to right or left about its point in the ground is just another way of saying that he swung the receiver coil on its extended axis. The purpose and result of the operation were the same in the one case as in the other.

Thus I find that the defendant Sharpe Geophysical Surveys Limited infringed the plaintiff's rights under Claim 11. And it follows that it also infringed its rights under Claim 12.

There will, therefore, be judgment in favor of the plaintiff that Claims 8, 11 and 12 are valid and have been infringed as stated and that the plaintiff is entitled to the relief sought by it except as to damages. If the parties are unable to agree on the amount of the damages or the amount of profits, if the plaintiff elects the latter, there will be a reference to the Registrar or a Deputy Registrar to determine the same and judgment for such amount of damages or profits as found on the reference. The plaintiff is entitled to costs to be taxed in the usual way.

Judgment accordingly.

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COPYRIGHT—Copyright Act, R.S.C. 1927, c. 32, ss. 20(3), 36(2)—The Copyright Amendment Act, 1931, S. of C. 1931, c. 8, s. 7—Certificate of registration of copyright prima facie evidence of ownership by person registering certificate—Where plaintiff's title to copyright put in issue author of work presumed to be owner of copyright, unless contrary proved—Difference between prima facie evidence and proof. The plaintiff brought an action against the defendant for infringement of copyright. In its statement of claim it alleged that it was the owner of the copyright in a work called "Golgotha", of which the author was one Chanoine Joseph Reymond, a French citizen, resident in Paris, and that the defendant had infringed its rights by broadcasting it by means of television from its station in Toronto. In its statement of defence the defendant denied that the plaintiff was entitled to any copyright in the work. Counsel for the plaintiff relied on a certificate of registration of copyright issued by the Commissioner of Patents who certified that the copyright in the published literary work entitled "Golgotha" by Chanoine Joseph Reymond, of Paris, France, was registered in the Register of Copyrights kept at the Copyright Office on February 5, 1952, in the name of the plaintiff and that under section 36(2) of the Copyright Act the certificate of registration was, in the absence of evidence to the contrary, sufficient proof of the plaintiff's entitlement to the copyright. Counsel for the defendant submitted that section 20(3) of the Copyright Act as amended in 1931 applied in the circumstances of the case and that under it the onus of proof of the plaintiff's title to the copyright, since it was not the author of the work, lay on it and was not discharged by the mere filing of the certificate of registration. As an alternative to his submission counsel for the plaintiff sought to prove the plaintiff's title to the copyright by producing certain documents and proving their execution through the evidence of the president of the plaintiff. *Held:* That there is a difference between prima facie evidence and proof. 2. That in an action for infringement of copyright, where the plaintiff is not the author of the work in which he claims the copyright and the defendant puts in issue the plaintiff's title to it, the onus of proof that the author of the work is not the owner of the copyright rests on the plaintiff and cannot be discharged merely by filing a certificate of registration of copyright in his name. 3. That the execution of the documents produced on behalf of the plaintiff was not lawfully proved and the plaintiff has not proved its title to the copyright. 4. That the plaintiff's action must be dismissed. **CIRCLE FILM ENTERPRISES INC. v. CANADIAN BROADCASTING CORPN.**.....166

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CROWN—Petition of Right—Damages—Petition filed after expiration of twelve months from time of damages—The Highway Traffic Act of Manitoba, R.S.M. 1940, c. 93, s. 84(1)—Exchequer Court Act, R.S.C. 1952, c. 98, s. 31—Provincial limitation of action applicable—No estoppel against requirement or operation of statute. The suppliant brought a petition of right for damages for personal injuries alleged to have been suffered by him at Winnipeg in Manitoba on December 18, 1947, through having been struck by a motor vehicle driven by a member of the Royal Canadian Air Force. It was alleged that the injuries resulted from the negligence of the driver while acting within the scope of his duties. The petition was not filed in this Court until November 19, 1953. It was alleged in paragraph 8 of the statement of defence that the suppliant's action was barred by reason of the fact that it was

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not brought until after the expiration of twelve months from the time when his damages were sustained as required by section 84(1) of *The Highway Traffic Act* of Manitoba, R.S.M. 1940, Chapter 93, and section 31 of the *Exchequer Court Act*, R.S.C. 1952, Chapter 98. It was alleged in the suppliant's reply that the respondent was estopped from asserting the facts upon which the defence alleged in paragraph 8 of the statement of defence was based by reason of the representation made to the suppliant by officers and servants of the respondent that his injury was pensionable and that an action need not be commenced for compensation for it. Counsel for the respondent applied for judgment that the suppliant was not entitled to any of the relief sought in the petition of right. *Held*: That the provincial laws relating to prescription and the limitation of actions referred to in section 31 of the *Exchequer Court Act* of which the Crown may avail itself in a petition of right are those of the province in which the cause of action arose that are in force in such province at the time when the Crown is called upon to make its defence to the petition of right and that the respondent was entitled, in the absence of a valid reason to the contrary, to rely upon section 84(1) of *The Highway Traffic Act* of Manitoba as a bar to the suppliant's proceedings. 2. That there cannot be an estoppel to defeat the requirements of a statute or prevent its operation. 3. That representations of the kind alleged in the reply cannot operate as an estoppel to prevent the operation of a statutory limitation. 4. That the suppliant was not entitled to any of the relief sought in the petition of right. LEONARD A. PARMENTIER v. HER MAJESTY THE QUEEN, 66

2.—*Petition of Right—Civil Service Superannuation and Retirement Act, R.S.C. 1906, c. 17, s. 2(a)—Civil Service Act, 1918, S. of C. 1918, c. 12, ss. 9(2), 45B(1)—Civil Service Superannuation Act, S. of C. 1924, c. 69, s. 2(b)—Civil Service Superannuation Act, R.S.C. 1927, c. 24, ss. 2(b), 15, 16, 20—Public Service Superannuation Act, S. of C. 1952-53, c. 47, ss. 9(1), 24(2)—Order in Council P.C. 2958, dated December 16, 1920—Order in Council P.C. 208/1426, dated June 30, 1922—Order in Council P.C. 52/517, dated April 6, 1925—Statutory right to superannuation annuity or allowance—Per diem rate of pay not a yearly salary or stated annual salary—Presumption against retrospective operation of statute—Order in Council no effect beyond that authorized by empowering Act. The suppliant, a retired civil servant, became in 1909 a temporary employee in the Topographical Surveys Branch of the Department of the Interior on a per diem wage. As from April 17, 1919, his position was that of Chief of Survey Party at \$9.00 per day. Under the authority of Order in Council P.C. 2958, dated*

December 16, 1920, the Civil Service Commission approved a recommendation from the Deputy Minister of the Interior that certain temporary employees of the Department, including the suppliant, be granted permanent status. The recommendation was concurred in by the Treasury Board and approved by Order-in-Council P.C. 208/1426, dated June 30, 1922, pursuant to which the suppliant became a permanent official of the Department of the Interior as from April 1, 1921. The *Civil Service Superannuation Act* came into force on July 19, 1924, at which time the suppliant, although he had been granted the status of permanency, was still on a per diem rate of pay. Subsequently, Order in Council P.C. 52/517, dated April 6, 1925, was enacted pursuant to which certain officials of the Topographical Surveys Branch of the Department of the Interior, including the suppliant, were reclassified on an annual salary basis with effect from April 1, 1924. On the assumption that this Order in Council had the retroactive effect of putting him in the same position as if he had been in receipt of an annual stated salary on April 1, 1924, the suppliant elected to become subject to the *Civil Service Superannuation Act*. On May 20, 1953, the suppliant was retired and his superannuation was calculated on the basis of the average of the salary received by him during the last ten years of his service on the ground that he did not become a civil servant until after July 19, 1924, and that Part I of the *Civil Service Superannuation Act*, and not Part II or Part IV, applied to him. The suppliant protested and brought a petition of right seeking a declaration that he is entitled to the benefit of Part II of the *Civil Service Superannuation Act* and section 24(2) of the *Public Service Superannuation Act* and that his superannuation annuity or allowance should be calculated on the basis of the average of the salary received by him during the last five years of his service. *Held*: That a person who has complied with the requirements of the *Public Service Superannuation Act* has a statutory right to the superannuation annuity or allowance under it and that if it is wrongfully withheld from him a petition of right lies for its recovery. 2. That in order that a person should be held entitled to the said superannuation annuity or allowance it must be shown that every condition prescribed by the statute that created it has been complied with and the onus of proof of such compliance lies on the person who asserts the right. 3. That a per diem rate of pay is not a "yearly salary" or a stated annual salary: *Naylor v. Peacehaven Electric Light and Power Company, Limited* (1930-31) 47 T.L.R. 535 at 537 followed. 4. That at the date of the coming into force of the *Civil Service Superannuation Act*, namely, July 19, 1924, the suppliant was not subject to the provisions of the *Retirement Act* in that, at such date, he was

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not being paid a "yearly salary" and was not, therefore, a member of the Civil Service for the purposes of the *Civil Service Superannuation and Retirement Act*, within the meaning of section 2(a) of that Act, and that, consequently, he did not come within the ambit of section 15 of the *Civil Service Superannuation Act* and Part II of that Act did not apply to him. 5. That on July 19, 1924, the suppliant was not a civil servant within the meaning of section 2(b) of the *Civil Service Superannuation Act* in that, at such date, he was not in receipt of "a stated annual salary", as required by the section, and that, consequently, he did not come within the ambit of section 20 of the Act and Part IV of the Act did not apply to him. 6. That it is a fundamental rule that, except in respect of procedure, a statute shall not be construed as having a retrospective operation unless the intention that it shall have such operation clearly appears in it, either in express terms or by necessary implication. 7. That an Order in Council, being delegated legislation, cannot have an effect beyond that which is authorized by the Act which empowers its enactment. 8. That the Governor in Council does not have authority to pass an Order in Council unless the Act of Parliament under the authority of which it is passed, either expressly or by necessary implication, empowers its passing. 9. That Order in Council P.C. 52/517 of April 6, 1925, was passed under the authority of section 9(2) and 45B(1) of the *Civil Service Act*, 1918, and there is no indication in that Act or in any Act empowering the Governor in Council to pass an Order in Council having the retroactive effect expressed in the Order in Council. 10. That the Governor in Council did not have authority to make Order in Council P.C. 52/517 of April 6, 1925, retroactively effective to put the suppliant in the position of being in receipt of a stated salary as at April 1, 1924, as it purported to do. 11. That Order in Council P.C. 52/517 of April 6, 1925, was not effective to entitle the suppliant to have his superannuation calculated on the basis of the average of the salary received by him during the last five years of his service. 12. That the suppliant is not entitled to any of the relief sought by him. ERNEST SMITH MARTINDALE v. HER MAJESTY THE QUEEN 153

3.—*Petition of Right—Civil Service Act, R.S.C. 1927, c. 22, ss. 5, 38—Civil Service Act, R.S.C. 1952, c. 48, ss. 5, 19—Civil Service Regulations approved by Order in Council P.C. 5700, dated November 17, 1949—Section 118 of Civil Service Regulations added by Order in Council P.C. 1954-1, dated January 7, 1954—Exchequer Court Act, R.S.C. 1952, c. 98, s. 18(1)(d)—Appointment of servants of Crown at pleasure—Right of civil servants to have opportunity, prior to dismissal, of presenting side of case*

to senior officer—Denial of right a cause of action for damages. The suppliant was a temporary employee of the Post Office Department as a postal clerk in the Post Office at Saskatoon in Saskatchewan. On September 9, 1954, the Postmaster at Saskatoon informed him by letter that on the basis of his being unable "to properly meet the physical requirements" of his classification he was to be released from the service and his services would not be required after September 25 and he was struck off strength on October 7, 1954. The suppliant complained of his dismissal and, after voluminous correspondence by himself and others on his behalf seeking relief, brought a petition of right in which he complained that his dismissal was wrongful and sought (a) a declaration that his employment in the Civil Service of Canada was still continuing and an order for wages, (b) a declaration that he was wrongfully dismissed and unstated damages and (c) damages for not having been given, prior to his dismissal, an opportunity to present his side of the case to a senior officer of the department nominated by the deputy head. The suppliant's case was based on section 118 of the Civil Service Regulations which provided that no employee should be dismissed, suspended or demoted without having been given an opportunity to present his side of the case to a senior officer of the department nominated by the deputy head and on the fact that he had not been given the opportunity to which he was entitled under the section. *Held:* That section 19 of the *Civil Service Act* puts the long standing rule that servants of the Crown, in the absence of law to the contrary, hold office during pleasure into statutory effect and that the suppliant has no right to the declaration sought by him that his employment in the Civil Service of Canada is still continuing and that he is entitled to wages. 2. That the suppliant did not have a contract of employment in the Post Office, and that even if he had been a permanent employee, his appointment, under section 19 of the Act, was at pleasure, which meant that he could have been dismissed without cause or notice and even arbitrarily, and that he has no right to damages for wrongful dismissal in the ordinary sense of the term. 3. That section 5 of the *Civil Service Act* gives the Civil Service Commission a wide discretion to make regulations "as it deems necessary or convenient" for carrying out the Act and that section 118 of the Civil Service Regulations was within its powers. 4. That section 118 of the Regulations and section 19 of the Act must be read together and effect given to each. 5. That section 118 of the Regulations gives a civil servant whom it is proposed to dismiss the right, prior to his dismissal, to have an opportunity to present his side of the case to a senior officer of the department nominated by the deputy head and that when that

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opportunity has been given to him the right to dismiss him at pleasure provided by section 19 of the Act is in full force and effect. 6. That the suppliant was not given the right to which he was entitled under section 118 of the Regulations and that this gave him a valid claim against the Crown arising under a regulation made by the Governor in Council within the meaning of section 18(1)(d) of the *Exchequer Court Act*. 7. That since the suppliant was deprived of a right to which he was legally entitled he has a cause of action and a right to damages. *Ashby v. White* (1703) 2 Ld. Raym. 938, 1955 applied. 8. That the suppliant is entitled to damages in the sum of \$500. PAUL ZAMULINSKI v. HER MAJESTY THE QUEEN..... 175

4.—*Petition of Right—Claim for damages for injurious affection of property by operation of airport zoning regulations—Aeronautics Act, R.S.C. 1952, c. 2, ss. 4(1)(j), 4(5), 4(6) 4(7), 4(8), 4(9)—Montreal Airport, Dorval, Zoning Regulations, Order in Council P.C. 1955-268, dated February 23, 1955, ss. 2, 4(1), 4(2), 5—Order in Council P.C. 1955-1978, dated October 19, 1955—Amount of compensation for injurious affection of property measured by decrease in value by enactment of Regulations—Value to the owner—Suppliant entitled to have value and decrease in value determined on basis of most advantageous use—No warrant for additional allowance of 10 per cent—Suppliant not entitled to interest.* The suppliant claimed damages for the injurious affection of its property by the operation of the Montreal Airport, Dorval, Zoning Regulations, enacted on February 23, 1955. The Regulations applied to all lands adjacent to or in the vicinity of the Montreal Airport at Dorval in Quebec and included the suppliant's property which had a frontage on the north side of the Côte de Liesse Road. Section 4(1) of the Regulations imposed height restrictions on buildings, structures or objects on the affected lands and section 4(2) empowered the Minister of Transport to order the removal, demolition or modification of any building, structure or object that exceeded the permitted height limits. Section (5) of the Regulations imposed restrictions on any use of the affected lands that caused or might cause a hazard or obstruction to aircraft using the airport. On October 19, 1955, the Regulations were amended by revoking section 4(2) and section 5. The suppliant's property had a frontage of 581.4 feet on the Côte de Liesse Road and a depth of 1,675.5 feet. At the date of the enactment of the Regulations it was vacant land except for an old farm house building but since then the rear portion of the property was occupied by Kingsway Transport Limited, a wholly owned subsidiary of the suppliant, for a truck transport warehouse and terminal, its buildings being set back about 522

feet from Côte de Liesse Road. The front portion of the property was vacant except for the old farm house building. The suppliant based its claim on section 4(8) of the *Aeronautics Act*. *Held*: That the suppliant's right to compensation for the injurious affection of its property by the operation of the Regulations is a statutory one. 2. That the measure of the compensation to which the suppliant is entitled is the amount by which its injuriously affected property was decreased in value by the enactment of the Regulations. 3. That, in order to find such decrease in value, the Court must determine the value of the suppliant's property as it was immediately prior to the enactment of the Regulations. 4. That the onus of proof of such value and decrease in value is on the suppliant. 5. That the Court must find what increase in the value of the property, if any, occurred after the suppliant became its owner and was attributable to the airport. 6. That there was no such increase in value. 7. That the Court must find the amount, if any, by which the decrease in value suffered by the suppliant by the enactment of the Regulations was reduced by the revocation of sections 4(2) and 5. 8. That the onus of proof of any such reduction rests on the respondent. 9. That the suppliant's right to compensation stems from section 4(8) of the Act and not from the registration of a plan and the measure of the compensation is the decrease in the value of its property by the enactment of the Regulations, not by the registration of a plan. 10. That the value referred to in section 4(8) of the Act is value to the owner and its measure is the amount which a prudent purchaser in a position similar to that of the owner and knowing all the advantages and disadvantages of the property, present and prospective, would, in the ordinary course and without the pressure of urgent need, have been willing to pay for it in order to obtain it. *Pastoral Finance Association, Limited v. The Minister* [1914] A.C. 1083 at 1088 and *The Queen v. Supertest Petroleum Corporation Limited* [1954] Ex. C.R. 105 at 123 applied. 11. That the decrease in value for which the suppliant is entitled to compensation is the difference between the amount which the prudent purchaser referred to would have been willing to pay for the property after the enactment of the regulation and that which he would have been willing to pay for it before its enactment. 12. That the suppliant is entitled to have such value and its decrease determined on the basis of the most advantageous use, whether present or prospective, to which its property could have been put immediately prior to the enactment of the Regulations. *Nicholson Eminent Domain*, 2nd Edition at page 665, applied. 13. That it is only the present value of the prospective advantages of the property that falls to be determined. *The King v. Elgin Realty Company Limited*

CROWN—Continued—Suite

[1943] S.C.R. 49 applied. 14. That the most advantageous use to which the suppliant could put the rear portion of its property after the enactment of the Regulations was the use to which it actually put it, namely, for the truck transport warehouse and terminal purposes of its wholly owned subsidiary, Kingsway Transports Limited. 15. That the most advantageous use to which the suppliant could put the front portion of its property after the enactment of the Regulations was, and is, a use for a comparatively large light industry and that such use is a better and higher one than that which was possible for the rear portion of the property. 16. That the rear portion of the property had less value than that of the front. 17. That the amount of the compensation to which the suppliant is entitled for the injurious affection of its property by the operation of the Regulations is \$25,000. 18. That the suppliant has failed to prove that it suffered any decrease in the value of its property by the inclusion of section 5 in the Regulation. 19. That there is no warrant for the suppliant's claim for an additional allowance of 10 per cent. 20. That the suppliant is not entitled to interest since there cannot be a valid claim for interest against the Crown unless interest is payable under a contract providing for it or is authorized by statute and neither of these conditions is present.

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5.—*Petition of Right—Expropriation—Expropriation Act, R.S.C. 1952, c. 106, ss. 9(1), 23, 34—The Land Titles Act, R.S.S. 1953, c. 108, s. 96—Expropriation complete on filing plan and description of property—Canada has most arbitrary system of expropriation—Compliance with requirements of section 9(1) of Expropriation Act essential to validity of expropriation.* The suppliant brought a petition of right for compensation for the alleged expropriation of a portion of her property consisting of land along the shore of Buffalo Pound Lake near Moose Jaw in Saskatchewan and two summer cottages on a point jutting into the lake. Counsel for the suppliant sought to prove the expropriation by filing two documents. The first was a plan of survey under the heading "Buffalo Pound Lake Storage Project", showing the areas required to be flooded in order to raise the level of the lake, including the portion of the suppliant's land required for the purpose outlined on the plan in red. This plan was approved by certain officers of the Province of Saskatchewan and also carried the signature of the Superintendent of Water Development under the *Prairie Farm Rehabilitation Act*. The plan was filed under section 96 of *The Land Titles Act* of Saskatchewan in the Land Titles Office at Moose Jaw. The other document was a Notice of Expropriation giving notice that the area required for the Buffalo Pound

Lake Reservoir and Right of Way as marked on the plan of survey had been taken by and was vested in Her Majesty the Queen in Right of Canada. On the filing of these documents counsel for the respondent stated that the Department of Justice had discovered that there was substantial doubt whether the requirements of section 9 of the *Expropriation Act* had been complied with, that the land titles office had refused to accept further plans and descriptions on the ground that titles had vested in the Crown by the issuance of certificates of title and that the Crown felt duty bound to put the matter before the Court so that it might consider whether there was an expropriation which could support a judgment authorizing payment under section 34 of the *Expropriation Act*. *Held*: That under section 9(1) of the *Expropriation Act* a man's land can be lawfully taken from him without his consent, and even without his knowledge or any notice to him, merely by the deposit of record in the proper land titles or land registry office of a duly signed plan and description of the land, that this may be done whenever the Minister of the department charged with the construction and maintenance of the public work for which the land is to be taken deems it advisable to do so, that on such deposit the expropriation of the land is complete without any further act by anyone, that whatever right, title or interest the former owner, or any other person had in or to the land is immediately extinguished and the land is automatically vested in Her Majesty the Queen, free and clear from any claims to or encumbrances upon it and that all this is left to the former owner of the land, or a person having a claim to or an encumbrance upon it, is a claim to compensation, which by section 23 of the Act is made to stand in the stead of the land. 2. That Canada has the most arbitrary system of expropriation of land in the whole of the civilized world. 3. That since a man's land can be validly taken from him by compliance with the requirements of section 9 of the *Expropriation Act*, no matter how arbitrary its provisions are, it is essential to the validity of an expropriation under the Act that its requirements have been strictly complied with and that if they have not been so complied with the purported expropriation is invalid. 4. That in the present case the requirements of the section have not been complied with. 5. That it is doubtful whether the plan of survey referred to is the kind of plan contemplated by the section, that the plan contemplates the registration of the portion of the property that is outlined on the plan in red on the application of the Superintendent of Water Development under the *Prairie Farm Rehabilitation Act* and there is no authority under section 9 of the *Expropriation Act* for the deposit of a plan having such effect. 6. That the Notice of Expropriation was not in any sense a description of the land within the

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requirements of the section. 7. That, since the requirements of section 9 have not been complied with, there has not been a valid expropriation of any portion of the suppliant's lands and that, since the portion of the suppliant's land that was alleged to have been expropriated was not in fact expropriated, she is still its owner and not entitled to any compensation for it and there is no basis on which to found her petition of right. 8. That the suppliant is not entitled to any of the relief sought by her. **ETHEL V. GRAYSON V. HER MAJESTY THE QUEEN**..... 331

CUSTOMS ACT, R.S.C. 1952, c. 58, s. 45.

See REVENUE, No. 10.

CUSTOMS DUTY.

See REVENUE, No. 10.

CUSTOMS TARIFF, R.S.C. 1952, c. 60 ITEMS 688, 476.

See REVENUE, No. 10.

DAMAGES.

See CROWN, No. 1.

DEALING WITH SUBJECT MATTER OF TRANSACTION AS TRADER WOULD DO EVIDENCE OF ADVENTURE IN NATURE OF TRADE.

See REVENUE, No. 9.

DEDUCTIBILITY OF BUSINESS LOSSES IN OTHER YEARS LIMITED TO CASES OF PROFIT FROM BUSINESS IN WHICH LOSS SUSTAINED.

See REVENUE, No. 4.

DEDUCTIBILITY OF SOCIAL CLUB ADMISSION FEES AND MEMBERSHIP DUES PAID FOR SENIOR OFFICERS.

See REVENUE, No. 3.

DEDUCTIBLE ALLOWANCE IN RESPECT OF OIL OR GAS WELL.

See REVENUE, No. 7.

DEDUCTION UNDER SUBSECTION (5) LIMITED TO AMOUNT OF EXPENDITURES REASONABLY ATTRIBUTABLE TO PRODUCTION OF OIL OR GAS FROM WELL.

See REVENUE, No. 7.

DENIAL OF RIGHT A CAUSE OF ACTION FOR DAMAGES.

See CROWN, No. 3.

DEPARTMENT OF TRANSPORT ACT, R.S.C. 1952, c. 79, ss. 9, 15.

See EXPROPRIATION, No. 1.

DIFFERENCE BETWEEN PRIMA FACIE EVIDENCE AND PROOF.

See COPYRIGHT, No. 1.

DIFFERENCE BETWEEN PROCESS AND METHOD.

See PATENTS, No. 2.

DIVIDENDS FROM PERSONAL CORPORATIONS INVESTMENT INCOME IN HANDS OF RECEIVER.

See REVENUE, No. 5.

DOCTRINE OF EQUIVALENCY APPLICABLE ONLY IN RESPECT OF NON-ESSENTIAL FEATURE.

See PATENTS, No. 6.

DOCTRINE OF EQUIVALENCY STILL IN EFFECT IN CANADA.

See PATENTS, No. 6.

DROIT D'AUTEUR—

Voir COPYRIGHT.

DUTY OF ACCOUNTANTS IN APPLYING ACCOUNTING SYSTEMS.

See REVENUE, No. 2.

EVIDENCE OF ANTICIPATION BY PRIOR USER TO BE SUBJECTED TO CLOSEST SCRUTINY.

See PATENTS, No. 5.

EVIDENCE OF KNOWLEDGE OR USE OF INVENTION PRIOR TO THAT ASSERTED BY APPLICANT FOR PATENT SUBJECT TO CLOSEST SCRUTINY.

See PATENTS, No. 1.

EXCHEQUER COURT ACT, R.S.C. 1952, c. 98, s. 18(1)(d).

See CROWN, No. 3.

EXCHEQUER COURT ACT, R.S.C. 1952, c. 98, s. 31.

See CROWN, No. 1.

EXCESS PROFITS TAX.

See REVENUE, No. 2.

EXCESS PROFITS TAX ACT, 1940, S. of C. 1940, c. 32.

See REVENUE, No. 2.

EXPROPRIATION.

See CROWN, No. 5.

EXPROPRIATION—

1. Additional allowance for compulsory taking an unwarranted bonus. No. 1.
2. Case not within ambit of rule in *The King v. Lavoie*. No. 1.
3. Contract involving provision of funds by Parliament requires authorization by Parliament. No. 1.
4. *Crown*. No. 1.
5. Expropriation Act, R.S.C. 1952, c. 106, ss. 3, 9, 16, 23. No. 1.
6. Financial Administration Act, S. of C. 1951 (2nd sess.) c. 12, now R.S.C. 1952, c. 116, ss. 5(1), 30, 39. No. 1.
7. Department of Transport Act, R.S.C. 1952, c. 79, ss. 9, 15. No. 1.

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8. Minister cannot bind Crown unless authorized by Order in Council or by Statute. No. 1.
9. No power in Minister to pay amount of valuation claimed by suppliant. No. 1.
10. Onus on suppliant to prove alleged agreement. No. 1.
11. Owner not entitled to interest while in possession of property without payment of rent. No. 1.
12. Petition of Right. No. 1.
13. Regulations Relative to the Acquisition of Land by Government Departments, Order in Council P.C. 4235, dated October 9, 1952, ss. 6, 7(1). No. 1.

EXPROPRIATION—Crown—Petition of Right—Expropriation Act, R.S.C. 1952, c. 106, ss. 3, 9, 16, 23—Department of Transport Act, R.S.C. 1952, c. 79, ss. 9, 15—Regulations Relative to the Acquisition of Land by Government Departments, Order in Council P.C. 4253, dated October 9, 1952, ss. 6, 7(1)—Financial Administration Act, S. of C. 1951 (2nd sess.), c. 12, now R.S.C. 1952, c. 116, ss. 5(1), 30, 39—Onus on suppliant to prove alleged agreement—Contract involving provision of funds by Parliament requires authorization by Parliament—Minister cannot bind Crown unless authorized by Order in Council or by Statute—No power in Minister to pay amount of valuation claimed by suppliant—Owner not entitled to interest while in possession of property without payment of rent—Additional allowance for compulsory taking an unwarranted bonus—Case not within ambit of rule in *The King v. Lavoie*.

The petition of right and the information action were tried together. The information proceedings were taken for an adjudication of the amount of compensation to which the defendant was entitled for the expropriation of her property which, together with other properties, was taken for the purpose of the Malton Airport. Subsequently, she brought a petition of right for the recovery of \$17,330.50, being the amount of the valuation of her property made by Mr. C, alleging that there was an agreement between Her Majesty the Queen, acting through the Minister of Transport, and herself that Mr. C. should appraise her property and that both parties should be bound by his valuation. Mr. C had been appointed by the Department of Transport to appraise the suppliant's property and other properties taken for the Malton Airport. The appointment was made on the recommendation of Mr. P, the Member of Parliament for the constituency in which the expropriated properties were situate, and he obtained agreements by the former owners, including the suppliant, that they would accept the valuations to be made by Mr. C. When the valuations were made they were out of line with other valuations that

had been made and with settlements that had been made in a large number of cases in the Malton area and they were unacceptable to the Department. The Deputy Minister of Transport informed the suppliant accordingly and increased the Department's offer for the property from the original offer of \$9,200 to \$11,200. She declined this increased offer and launched her petition. It was submitted for her that there was an agreement by the Minister on behalf of Her Majesty with Mr. P on her behalf and that of the other owners that the valuations made by Mr. C should be binding on both parties and, secondly, that Mr. P had been authorized by the Minister to make an agreement with her and the other owners and clothed with ostensible authority to do so and that Mr. P had made such an agreement. There was a conflict of evidence on the issues raised in the petition and a conflict of expert opinion on the value of the expropriated property. *Held:* That the Court should not conclude, in the absence of clear evidence, that the Minister agreed to be bound in advance by whatever valuations the appraiser might make. 2. That the burden of proof of the alleged agreement lay on the suppliant and she has not discharged it. 3. That there is no support for the submission that the Minister clothed Mr. P with authority to make an agreement that would be binding on both parties, that he was never an agent of the Government and the Minister never held him out as such. 4. That even if it had been proved that the Minister had agreed to accept the appraiser's valuations as alleged this would not have entitled the suppliant to the relief sought by her. 5. That if a contract which involves the provision of funds by Parliament is to possess legal validity it requires that Parliament should have authorized it, either directly or under the provision of a statute. 6. That a Minister cannot bind the Crown unless authorized by order in council or by statute. 7. That, under sections 6 and 7(1) of the "Regulations Relative to the Acquisition of Land by Government Departments", since Mr. C's appraisal exceeded \$15,000, the Minister had no power to pay the amount of compensation claimed by the suppliant without the authority of the Treasury Board. 8. That the Regulations are valid and that the Minister had no power to enter into the alleged agreement. 9. That the Minister was prevented from entering into a valid agreement of the kind alleged by reason of section 30(1) of the *Financial Administration Act*. 10. That the suppliant is not entitled to any of the relief sought by her. 11. That the amount of \$11,200 offered to the defendant would cover every factor of the value of the property to her that could reasonably be considered. 12. That since the defendant remained in possession of the property until December 1, 1958, without payment of rent she is not entitled to interest up to that date. After the date of delivery of judgment herein counsel for

EXPROPRIATION—Concluded—Fin

the defendant in the information action requested that the amount of the award of \$11,200 should be increased by an additional allowance of 10 per cent for compulsory taking. *Held*: That the amount of the award in the present case is so ample to cover every factor of the value of the expropriated property to its former owner that could reasonably be considered that any additional allowance for compulsory taking would be an unwarranted bonus. *The Queen v. Sisters of Charity* [1952] Ex. C.R. 113 at 131 and *The Queen v. Superfest Petroleum Corporation Limited* [1954] Ex. C.R. 105 at 143 followed. 2. That the case does not fall within the ambit of the rule laid down by the unanimous judgment of the Supreme Court of Canada in *The King v. Lawrie* (December 18, 1950, unreported). 3. That it is reasonable to assume that the increased offer of \$11,200 included an additional amount of 10 per cent and that it would be highly improper to add another additional allowance of 10 per cent to an amount that already includes it. 4. That even if there were jurisdiction to alter the amount of the judgment it would not be altered and that the request of counsel for the defendant that the amount of the award be increased by an additional allowance of 10 per cent for compulsory taking is refused. ALLEN M. DREW v. HER MAJESTY THE QUEEN... 339
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EXPROPRIATION ACT, R.S.C. 1952, c. 106, ss. 3, 9, 16, 23.

See EXPROPRIATION No. 1.

EXPROPRIATION ACT, R.S.C. 1952, c. 106, ss. 9(1), 23, 34.

See CROWN, No. 5.

EXPROPRIATION COMPLETE ON FILING PLAN AND DESCRIPTION OF PROPERTY.

See CROWN, No. 5.

FINANCIAL ADMINISTRATION ACT, S. OF C. 1951 (2nd SESS.) c. 12, NOW R.S.C. 1952, c. 116, ss. 5(1), 30, 39.

See EXPROPRIATION, No. 1.

FINDINGS IN CONFLICT PROCEEDINGS NOT AN IMPRIMATUR OF VALIDITY OF CLAIMS IN CONFLICT.

See PATENTS, No. 1.

FOREIGN PATENT NOT ADMISSIBLE TO INTERPRET VALIDITY OF CLAIM IN CANADIAN PATENT.

See PATENTS, No. 3.

HIGHWAY TRAFFIC ACT OF MANITOBA, R.S.M. 1940, c. 93, s. 84(1).

See CROWN, No. 1.

HOLDING OF PROPERTY FOR RE-SALE AT A PROFIT NOT PER SE PROOF OF PROFIT FROM ADVENTURE IN NATURE OF TRADE.

See REVENUE, No. 9.

IMPROVEMENT MAY BE INFRINGEMENT.

See PATENTS, No. 5.

INCOME TAX.

See REVENUE, Nos. 1, 2, 3, 4, 5, 6, 7, 8 and 9.

INCOME TAX ACT, 1948, S. OF C. 1948, c. 52, ss. 3, 4, 26(1)(d), 53, 127(1)(e).

See REVENUE, No. 4.

INCOME TAX ACT, 1948, S. OF C. 1948, c. 52, ss. 3, 5, 127(1)(e).

See REVENUE, No. 1.

INCOME TAX ACT, 1948, S. OF C. 1948, c. 52, ss. 3, 12(1)(a).

See REVENUE, No. 3.

INCOME TAX ACT, 1948, S. OF C. 1948, c. 52, ss. 11(1)(b), 11(1)(f), 12(1)(a), 12(1)(b), 12(1)(h), 106.

See REVENUE, No. 7.

INCOME TAX ACT, R.S.C. 1952, c. 148, ss. 3, 4, 67(1), 67(3), 68(1), 68(1)(c), 139(1)(e).

See REVENUE, No. 9.

INCOME TAX ACT, R.S.C. 1952, c. 148, ss. 3, 6(1), 32(1), 32(3), 32(4), 32(5), 67(1), 67(10), 67(11).

See REVENUE, No. 5.

INCOME TAX ACT, R.S.C. 1952, c. 148, ss. 28(1), 62(1)(i).

See REVENUE, No. 8.

INCOME TAX AND INCOME WAR TAX AMENDMENT ACT, S. OF C. 1949, 2nd SESS., c. 25, s. 53, AS AMENDED BY S. OF C. 1950, c. 40.

See REVENUE, No. 7.

INCOME TAX REGULATIONS, AS AMENDED BY ORDER IN COUNCIL P.C. 4443, DATED AUGUST 29, 1951, ss. 1200, 1201.

See REVENUE, No. 7.

INCOME WAR TAX ACT, R.S.C. 1927, c. 97, ss. 3, 6(d), 68.

See REVENUE, No. 2.

INCOME WAR TAX ACT, R.S.C. 1927, c. 97, s. 5(1)(h).

See REVENUE, No. 8.

INCOME WAR TAX ACT, R.S.C. 1927, c. 97, s. 5(p).

See REVENUE, No. 4.

INCOME WAR TAX ACT, R.S.C. 1927, c. 97, s. 6(a).

See REVENUE, No. 3.

- INFRINGEMENT.**
See PATENTS, Nos. 5 and 6.
- INFRINGEMENT A QUESTION OF FACT.**
See PATENTS, No. 2.
- INFRINGEMENT BY TAKING SUBSTANCE OF INVENTION.**
See PATENTS, No. 6.
- INJURIOUS FALSEHOOD.**
See PATENTS, No. 4.
- INVENTION DEFINED IN CLAIMS TO BE CONSIDERED.**
See PATENTS, No. 3.
- LAND TITLES ACT, R.S.S. 1953, c. 108, s. 96.**
See CROWN, No. 5.
- MARQUES DE COMMERCE—Voir TRADE MARKS.**
- MEANING OF ADVENTURE OR CONCERN IN NATURE OF TRADE.**
See REVENUE, No. 9.
- MEANING OF TERM "ADVENTURE OR CONCERN IN THE NATURE OF TRADE".**
See REVENUE, No. 1.
- MEANING OF "TRANSVERSE" AND "MUTUALLY TRANSVERSE".**
See PATENTS, No. 5.
- MEANING OF WORDS IN CUSTOMS TARIFF A QUESTION OF FACT.**
See REVENUE, No. 10.
- MERE THREAT OF INFRINGEMENT ACTION NOT A CAUSE OF ACTION.**
See PATENTS, No. 4.
- MINISTER CANNOT BIND CROWN UNLESS AUTHORIZED BY ORDER IN COUNCIL OR BY STATUTE.**
See EXPROPRIATION, No. 1.
- MONTREAL AIRPORT, DORVAL, ZONING REGULATIONS, ORDER IN COUNCIL P.C. 1955-268, DATED FEBRUARY 23, 1955, ss. 2, 4(1), 4(2), 5.**
See CROWN, No. 4.
- NAME OF REGISTRAR OF TRADE MARKS TO BE LEFT OUT OF STYLE OF CAUSE.**
See TRADE MARKS, No. 1.
- NEGATIVE AND POSITIVE GUIDES FOR DETERMINING WHETHER TRANSACTION AN ADVENTURE IN THE NATURE OF TRADE.**
See REVENUE, No. 1.
- NO CAUSE OF ACTION FOR THREATS IF NO EVIDENCE OF MALICE AND STATEMENTS NOT FALSE.**
See PATENTS, No. 4.
- NO CLAIM FOR EXEMPTION UNLESS REQUIREMENTS OF EXEMPTING SECTION COMPLIED WITH.**
See REVENUE, No. 8.
- NO ESTOPPEL AGAINST REQUIREMENT OR OPERATION OF STATUTE.**
See CROWN, No. 1.
- NO MONOPOLY IN USE OF SUFFIX "-PEDIC".**
See TRADE MARKS, No. 1.
- NO POWER IN MINISTER TO PAY AMOUNT OF VALUATION CLAIMED BY SUPPLIANT.**
See EXPROPRIATION, No. 1.
- NO WARRANT FOR ADDITIONAL ALLOWANCE OF 10 PER CENT.**
See CROWN, No. 4.
- OBVIOUS USE OF ELEMENTS OF COMBINATION NOT PROOF OF OBVIOUSNESS OF COMBINATION.**
See PATENTS, No. 3.
- ONUS OF PROOF OF INFRINGEMENT ON PLAINTIFF.**
See PATENTS, Nos. 3 and 5.
- ONUS OF PROOF OF INVALIDITY NOT EASY TO DISCHARGE.**
See PATENTS, No. 3.
- ONUS OF PROOF OF PRIOR INVENTION HEAVY.**
See PATENTS, No. 5.
- ONUS OF REBUTTING PRESUMPTION OF VALIDITY ON DEFENDANT.**
See PATENTS, No. 5.
- ONUS OF SHOWING INVALIDITY NOT EASY TO DISCHARGE.**
See PATENTS, No. 4.
- ONUS OF SHOWING PATENT INVALID NOT EASY TO DISCHARGE.**
See PATENTS, No. 6.
- ONUS ON SUPPLIANT TO PROVE ALLEGED AGREEMENT.**
See EXPROPRIATION, No. 1.
- ORDER IN COUNCIL NO EFFECT BEYOND THAT AUTHORIZED BY EMPOWERING ACT.**
See CROWN, No. 2.
- ORDER IN COUNCIL P.C. 1955-1978, DATED OCTOBER 9, 1955.**
See CROWN, No. 4.

**ORDER IN COUNCIL P.C. 52/517,
DATED APRIL 6, 1925.**

See CROWN, No. 2.

**ORDER IN COUNCIL P.C. 208/1426,
DATED JUNE 30, 1922.**

See CROWN, No. 2.

**ORDER IN COUNCIL P.C. 2958, DATED
DECEMBER 16, 1920.**

See CROWN, No. 2.

**OWNER NOT ENTITLED TO INTER-
EST WHILE IN POSSESSION OF
PROPERTY WITHOUT PAYMENT
OF RENT.**

See EXPROPRIATION No. 1.

**PATENT ACT, R.S.C. 1952, c. 203, ss.
2(d), 44.**

See PATENTS, No. 2.

PATENT ACT, R.S.C. 1952, c. 203, s. 48.

See PATENTS, No. 6.

**PATENT ACT, R.S.C. 1952, c. 203, ss.
48, 58.**

See PATENTS, No. 5.

**PATENT ACT, 1935, S. OF C. 1935,
c. 32, ss. 2(d) 35(1), 47.**

See PATENTS, No. 3.

**PATENT ACT, 1935, S. OF C. 1935,
c. 32, ss. 35(1), (2), 44(1)(a), (3), (4),
(5), (6), (7), (8).**

See PATENTS, No. 1.

**PATENT ACT, 1935, S. OF C. 1935,
c. 32, s. 47.**

See PATENTS, Nos. 5 and 6.

**PATENT ACT, 1935, S. OF C. 1935,
c. 32, ss. 47, 56, 60(1), 60(2).**

See PATENTS, No. 4.

**PATENT SPECIFICATION ADDRES-
SED TO PERSONS SKILLED IN
RELEVANT ART.**

See PATENTS, No. 5.

**PATENTABILITY OF PROCESS AP-
PLYING KNOWN METHOD OF
REACTION TO KNOWN REACT-
ANTS RESULTING IN DISCOV-
ERY OF UNOBLIVIOUS UTILITY
OF SUBSTANCES THEREBY PRO-
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See PATENTS, No. 2.

PATENTS

1. Action for damages for threats. No. 4.
2. Action for impeachment and declaration of non-infringement. No. 4.
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30. Onus of proof of invalidity not easy to discharge. No. 3.
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32. Onus of rebutting presumption of validity on defendant. No. 5.
33. Onus of showing invalidity not easy to discharge. No. 4.
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35. Patent Act, R.S.C. 1952, c. 203, ss. 2(d), 44. No. 2.
36. Patent Act, R.S.C. 1952, c. 203, s. 48. No. 6.
37. Patent Act, R.S.C. 1952, c. 203, ss. 48, 58. No. 5.

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38. Patent Act, 1935, S. of C. 1935, c. 32, ss. 2(d), 35(1), 47. No. 3.
39. Patent Act, 1935, S. of C. 1935, c. 32, ss. 35(1), (2), 44(1)(a), (3), (4), (5), (6), (7), (8). No. 1.
40. Patent Act, 1935, S. of C. 1935, c. 32, s. 47. Nos. 5 and 6.
41. Patent Act, 1935, S. of C. 1935, c. 32, ss. 47, 56, 60(1), 60(2). No. 4.
42. Patent specification addressed to persons skilled in relevant art. No. 5.
43. Patentability of process of applying known method of reaction to known reactants resulting in discovery of unobvious utility of substances thereby produced. No. 2.
44. Presumption of validity of patent. Nos. 3 and 4.
45. Sale of articles made prior to issue of patent not an infringement. No. 4.
46. Simplicity of putting idea into effect not an indication of obviousness. No. 4.
47. Slander of title. No. 4.
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49. Statutory duty to describe invention. No. 1.
50. Statutory presumption of prima facie validity extends to all attributes of patentability. No. 5.
51. Statutory presumption of validity of patent. No. 6.
52. To be invalidating prior use must be prior use of invention. No. 5.
53. Trade libel. No. 4.
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PATENTS—Conflict proceedings—The Patent Act, 1935, S. of C. 1935, c. 32, ss. 35(1), (2), 44(1)(a), (3), (4), (5), (6), (7), (8)—Statutory duty to describe invention—Claims invalid unless supported by disclosures in specification—Evidence of knowledge or use of invention prior to that asserted by applicant for patent subject to closest scrutiny—Findings in conflict proceedings not an imprimatur of validity of claims in conflict. The claims in conflict in these proceedings were contained in two applications for letters patent for an invention relating to methods of sealing a glass stem in a glass bulb in the manufacture of miniature glass radio receiving tubes on a mass production scale. They appeared

first in the application of H. R. Seelen, filed on November 19, 1941, and assigned to the plaintiff. They appeared later in the application of C. A. Horn, filed on August 6, 1942, assigned to Raytheon Production Corporation and by it to the defendant. The Commissioner of Patents, following the procedure prescribed by section 44 of *The Patent Act, 1935*, required each applicant to furnish an affidavit as provided for under section 44(5). In his affidavit Seelen stated that he had conceived the idea of the invention described in the claims between the last part of October, 1938, and December 1, 1938, that he wrote a description of the invention on April 13, 1939, and that tubes made by the method of the invention were made on a production basis in May, 1939. In his affidavit Horn stated that he conceived the idea of the invention and made the first drawing of it on or about December, 1937, and that tubes utilizing the invention were put into commercial production on or about August, 1938. On the strength of these affidavits the Commissioner allowed the claims in conflict to Horn and rejected them in Seelen's application and notified the parties that he would act accordingly unless proceedings were commenced in this Court within the prescribed time for the determination of the rights of the parties. The plaintiff thereupon brought the present proceedings under section 44(8) of the Act. There were two issues in the action. It was contended for the plaintiff that the defendant was not entitled to any of the claims in conflict on the ground that the disclosures in Horn's application did not support them and that the plaintiff was entitled to them. It was contended for the defendant that if the defendant was not entitled to the claims for the reason stated the plaintiff was not entitled to them on the ground that Horn was the first inventor of the invention defined by them, even although he did not make the requisite disclosures to entitle him to them. *Held.*, in respect of the first issue: That an inventor may not validly claim what he has not described and that if the disclosures of the specification do not support the claims they are invalid. 2. That there is a statutory duty, under section 35 of *The Patent Act, 1935*, of disclosure and description of the invention that must be complied with if a claim for it is to stand. 3. That the onus of disclosure that the section places on an inventor is a heavy and exacting one. 4. That the specification in the Seelen application may not be used as a dictionary for the purpose of ascertaining the meaning of the claims in conflict in the Horn application. Only the Horn specification may be used for that purpose and only to the extent that resort may be had to it to ascertain the meaning of the terms in the claims. 5. That when a specification discloses the invention of a process for the manufacture of an article in which the use of a special feature of the invention is essential to its success the inventor is not

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entitled to claim a process for the manufacture of the article in which the special feature is not used. He is not entitled to claim a monopoly more extensive than is necessary to protect that which he has invented. 6. That the Horn specification disclosed the use of features essential to his invention that were not mentioned in the claims in conflict and that the invention defined in them was different from and wider than that disclosed in the specification. 7. That the disclosures in the Horn specification did not support the invention defined in the claims in conflict and that the defendant was not entitled to them. *Held*, in respect of the second issue: That evidence of the knowledge or use of an invention prior to that asserted by an applicant for a patent should be subjected to the closest scrutiny. 2. That the onus of proof that Horn was the first inventor of the invention defined in the claims in conflict was a very heavy one. 3. That Horn was not a prior inventor to Seelen of the invention defined in the claims in conflict. *Held*, generally: That as between the parties the plaintiff was entitled to the issue of a patent containing the claims in conflict. 2. That the findings herein did not put an imprimatur of validity on the claims in conflict and that their validity was a matter for determination only in an action for infringement or for impeachment if such proceedings should be taken. RADIO CORPN. OF AMERICA V. RAYTHEON MANUFACTURING Co. 98

2—*Appeal from decision of Commissioner of Patents—Patent Act, R.S.C. 1952, c. 203, ss. 2(d), 44—Difference between process and method—Patentability of process of applying known method of reaction to known reactants resulting in discovery of unobvious utility of substances thereby produced.* The applicants, the assignors of the appellant, had filed an application for a patent containing three claims for certain chemical compounds and three claims for the process of making them. It was agreed that, although the reactants referred to in the product claims were known chemical compounds, the applicants were the first persons to react them and to discover their unobvious useful properties as disinfectants and preservatives. The compounds were thus new and useful and the discovery of their unobvious useful properties was an inventive act. The Commissioner allowed the claims for them but refused to allow the claims for the process by which the substances were produced on the ground that the process was not new. The appellant appealed from his decision. It was agreed that the reaction between reactants of the general type specified in the product claims, which were known chemical compounds, was a known and classical type of reaction, but it had never before been applied to the said reactants. It was also agreed that if a person skilled in the art had been asked to

produce the products defined in the product claims he would have known that the process defined in the process claims could have been used for the purpose. *Held*: That there is a difference between "process" and "method" or "procedure", that there cannot be a process by itself, but that it must consist of two elements, namely a method or procedure and the material or materials to which it is applied. 2. That when a process consists in the application of a known method to known materials but it has not previously been applied to them and the use of the process results in the production of a new substance then the process by which such new substance is produced is a new process. 3. That, since no one, prior to the invention, had applied the known classical method of reaction to the particular reactants specified in the product claims but that when the inventors did so they produced the new products defined in them, the process by which they did so was new. 4. That when a process consists in the application of a known method to known materials but it has not previously been applied to them and the use of the process results in the production of a substance that is not only new but also valuable for its unobvious useful qualities the process by which such substance is produced is patentable. 5. That the applicants made an inventive step when they applied the known classical method of reaction to the particular reactants specified in the product claims and discovered that by doing so they could produce the new and useful disinfectants and preservatives and that when they discovered their unobvious utility they also discovered the unobvious utility of the process by which they had produced them. 6. That the fact that the discovery by the applicants of the unobvious utility of their process may have flowed from their discovery of the unobvious utility of the substances produced by it does not deprive their concept of reacting the particular reactants and thus producing the new and useful substances of its inventive character. 7. That the process claims are patentable and the appeal from the Commissioner's decision is allowed. CIBA LTD. V. THE COMMISSIONER OF PATENTS. 142

3—*The Patent Act, 1955, S. of C. 1955, c. 32, ss. 2(d), 35(1), 47—Invention defined in claims to be considered—Presumption of validity of patent—Onus of proof of invalidity not easy to discharge—Unitary and simple result essential to validity of invention of combination—Obvious use of elements of combination not proof of obviousness of combination—Variation in elements of apparatus not a defence to charge of infringement if substance of invention taken—Ambit of claims dependent on language used—Onus of proof of infringement on plaintiff—Claim for invention invalid unless invention described in specification—Foreign patent not admissible to interpret validity of claim in Canadian*

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patent. The plaintiff sued for infringement of his patent No. 423,375 for "Shaft Sinking Apparatus", called the Riddell Mucker, which had for its object the performance by mechanical means instead of by hand of the "mucking" operation in mine shaft sinking, meaning thereby the removal of the loose rock or other material at the bottom of a mine shaft, called "muck", resulting from a blasting operation done in the course of sinking the shaft. The defendant attacked the claims for lack of novelty and inventiveness and denied infringement. *Held:* That the Riddell Mucker was very useful. Its advent marked a great advance in mine shaft sinking, not only in time saved but also in the number of men required. 2. That the Riddell Mucker met with marked commercial success. 3. That what has to be considered in a patent case is the invention as described in the specification and defined in the claims rather than that described in the evidence. 4. That there is a statutory presumption of the validity of a patent under section 47 of *The Patent Act*, that the onus of proving its validity is on the defendant, that where there has been a substantial and useful advance over the prior art, as in the present case, the Court should not make the onus of showing the invalidity of the patent an easy one to discharge and that the defendant has not discharged it. 5. That the fact that the component parts of an apparatus were old is irrelevant in the case of the invention of a combination if the combination itself is new. 6. That it is essential to the validity of a patent for a combination invention that the combination should lead to a unitary and simple result, that the unitary and simple result of the plaintiff's invention was the more expeditious and economic sinking of a mine shaft and that this was not attributable to any of the elements but flowed from the combination. 7. That prior to the date of the plaintiff's invention no one had conceived or formulated the idea of the combination of elements for use at the bottom of a mine shaft which the plaintiff had devised, described and claimed. 8. That the fact that the use of some of the elements of the combination may have been obvious does not warrant the conclusion that the combination was an obvious workshop improvement. The question is not whether the use of any particular element was obvious but whether the use of the combination was obvious. 9. That if the plaintiff's combination was obvious an apparatus for mechanized mucking would have been developed long before the plaintiff's apparatus was devised, that its success in solving the problem that mucking by hand presented after many attempts to solve it had not succeeded, and in solving the difficult problems involved in devising a mucking machine that could effectively

and safely be used at the bottom of a mine shaft is a strong indication that it was not a mere workshop improvement over the prior art and that there was inventiveness in it. 10. That even if the defendant's apparatus did have some advantages over the plaintiff's that fact does not free the defendant from liability for infringement if, apart from such advantages, it took the plaintiff's invention. The basic issue is whether the defendant, "dealing with what he is doing as a matter of substance, is taking the invention claimed by the patent". *Nobel's Explosive Company, Limited v. Anderson* (1894) 11 R.P.C. 115 at 127 applied. 11. That a patent is not to be defeated because subsequent inventions improved the patented article or because of such improvements practically no articles were made in accordance with the specification or because of variations in details that do not affect the substance of the invention. 12. That there was no reason why a witness for the defendant should not be permitted to say that he could not see in the defendant's apparatus certain of the features specified in claims in suit. 13. That there was no real difference between the defendant's apparatus and the plaintiff's, that all the integers of the plaintiff's combination were present in the defendant's apparatus, either exactly or with variations of insignificant importance, that in each case the integers were combined in the same way, that the variations in some of the integers in the defendant's apparatus did not effect any change in its unitary result over that which flowed from the use of the plaintiff's apparatus and that the combination of integers that made up the defendant's apparatus was essentially the same as that which the plaintiff invented. 14. That the plaintiff was entitled to define his invention in the claims in such a way as to protect himself in the enjoyment of the monopoly of his invention, that he was the master of his claims, within the breadth of his invention, and entitled to draft them "in words wide enough to secure the protection desired" and that "the precise ambit of the claim must depend on the language used". 15. That the onus of proving infringement was on the plaintiff and that he has discharged it. 16. That it is a basic rule of patent law that an invention cannot be validly claimed unless it has been described in the specification in the manner required by law and that this requirement was not complied with so far as claim 11, a method or process claim, was concerned. 17. That it is not permissible to interpret the validity of a claim in a Canadian patent by resort to a patent issued in another country where the law and practice may not be the same as in Canada. 18. That the plaintiff's action, except as to claim 11, should be allowed. JOSEPH MURRAY RIDDELL v. PATRICK HARRISON & Co. LTD.....213

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4.—*Action for impeachment and declaration of non-infringement—Action for damages for threats—Trade libel—Slander of title—Injurious falsehood—The Patent Act, 1935, S. of C. 1935, c. 32, ss. 47, 56, 60(1), 60(2)—The Unfair Competition Act, 1932, S. of C. 1932, c. 38, ss. 11(1)(a), 11(1)(c)—Statute of Monopolies, 21 James 1, c. 3—Presumption of validity of patent—Onus of showing invalidity not easy to discharge—Simplicity of putting idea into effect not an indication of obviousness—Claim for “transparent plastic” not too wide—Sale of articles made prior to issue of patent not an infringement—Mere threat of infringement action not a cause of action—No cause of action for threats if no evidence of malice and statements not false.* The plaintiff made an open face, one-piece polystyrene injection moulded bagatelle or pin-ball game called Fire Ball, using a thermoplastic polystyrene that could be melted. In 1952 the first-named defendant produced an enclosed game which forced the appellant to make a change in its game. In 1953 the plaintiff's Fire Ball game went off the market and it then produced three cheaper plastic pin-ball games. These were produced prior to July 14, 1953, the date when Canadian patent No. 494,947 for a Ball Control Game Apparatus issued to the first named defendant. Subsequently, the plaintiff produced other pin ball games. On August 6, the second-named defendant, a subsidiary and Canadian licensee of the first named defendant, wrote to approximately 125 persons in the plastic toys and games trade, including some of the plaintiff's customers and purchasers, stating that it intended to enforce the patent and prosecute infringements of it and notifying the addressees of the letter accordingly. The plaintiff then brought an action for impeachment of the patent and a declaration that its games did not infringe its claims and for damages alleged to have been sustained by it as the result of the letter. The defendants counterclaimed for a declaration that the patent was valid and had been infringed by the plaintiff and for an injunction and damages. *Held:* That the defendants' game was not anticipated by any prior patent or publication and that, while there were elements in it that were old, there was no doubt that it was new. 2. That the defendants' game had great commercial success and its utility was proved beyond dispute. 3. That there is a statutory presumption of the validity of the patent under section 47 of *The Patent Act, 1935*, and the onus of showing its invalidity is on the party attacking it, that where there has been a substantial and useful advance over the prior art, as in the present case, the Court should not make the onus of showing the invalidity of the patent an easy one to discharge and that the plaintiff has not discharged it in the present case. 4. That the

fact that it was easy to put an idea into practice and that all that was needed to do so was to apply well-known techniques to well-known substances does not prevent the embodiment of the idea from patentability if the idea itself involved the exercise of inventive ingenuity. *Hickton's Patent Syndicate v. Patents and Machine Improvements Company Ltd.* (1909) 26 R.P.C. 339 applied. 5. That the simplicity of putting an idea into effect is not an indication that the idea was not inventive or that it would be obvious to a person skilled in the art. 6. That the fact that the inventor saw the plaintiff's Fire Ball before he finally produced his invention does not deny his invention, that his game would not have been obvious to a person skilled in the art and that the necessary element of inventive ingenuity was present in it. 7. That the statement in the claims in which the term “transparent plastic” appears that the lower ends of the ball intercepting elements referred to in them should form rivets which pass through the bottom of the game and be headed beneath it confines the “transparent plastic” to be used to thermoplastic and does not extend it to thermo setting plastic and constitutes a complete answer to the charge that the claims are broad enough to include thermo setting plastic as well as thermoplastic and are, consequently, too wide in that they cover thermo setting plastic that would not work since such a plastic could not be “swedged”, meaning thereby that the ends of the intercepting elements referred to could not be heated and flattened out to form rivets as required by the claims. 8. That the plaintiff is not entitled to a declaration that the defendant's patent is invalid and that the defendants are entitled to a declaration that claims 1, 3 and 5 are valid. 9. That even if the three games which the plaintiff made prior to the date of the issue of the patent came within the terms of the claims it is saved by section 56 of the Act from liability for infringement in respect of them. 10. That the games which the plaintiff made subsequently to the date of the issue of the patent infringe claim 1 of the patent and the defendants are entitled to a declaration accordingly. 11. That while there was evidence that the letter written by the second defendant did have an adverse effect on some of the plaintiff's customers and purchasers and that it suffered some damage as a result it did not follow that this gave the plaintiff a cause of action against the defendants. 12. That the statements in the letter written by the second defendant were not false and the plaintiff had no cause of action under section 11(1)(a) or section 11(1)(c) of *The Unfair Competition Act, 1932*. 13. That there was no evidence to support the plaintiff's claim under the Statute of Monopolies. 14. That since the statements in the second defendant's letter were not false and there was no evidence of malice on its part, the plaintiff

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had no cause of action against the defendants for trade libel, slander of title or disparagement of property or injurious falsehood. *RELIABLE PLASTICS CO. LTD. v. LOUIS MARX & CO. INC. et al.* 257

5.—*Infringement—The Patent Act, 1935, S. of C. 1935, c. 32, s. 47—Patent Act, R. S. C. 1952, c. 203, ss. 48, 58—Infringement a question of fact—Onus of proof of infringement on plaintiff—Patent specification addressed to persons skilled in relevant art—Improvement may be infringement—Meaning of “transverse” and “mutually transverse”—Statutory presumption of prima facie validity extends to all attributes of patentability—Onus of rebutting presumption of validity on defendant—Breadth of claim not invalidating if terms clear—To be invalidating prior use must be prior use of invention—Evidence of anticipation by prior user to be subjected to closest scrutiny—Onus of proof of prior invention heavy.* The plaintiff sued for infringement of its Canadian Patent No. 540,725, for improvements in cartons for receiving and carrying bottles or other articles. The particular object of the invention was to provide a carton that was fitted with a movable handle by which the carton and its contents could be carried. Other objects were to provide a carton that could be returned with its handle undamaged so that it could be used again for packing new articles and to provide a handle component that was also a dividing partition forming cells in the interior assembly of the carton for the reception of the bottles or other articles to be carried. Claim 1 of the patent defined the invention as follows: “1. An enclosed carton of the type having a wall structure comprising side and end walls and a bottom, said carton including a top closure, and mutually transverse partition members defining article receiving compartments therein, and in which one such selected partition member includes a handle portion and is movable between a first retracted position in which said handle portion lies beneath said top closure and a second operative position in which said handle portion projects above said top closure, wherein at least one other of such partition members is fixed to the wall structure and co-operates with said selected partition members to limit movement thereof outward of such wall structure.” The plaintiff alleged that the defendant had infringed its patent by the manufacture and sale of cartons of two types. Cartons of the first type came admittedly within the terms of Claim 1 of the patent but the defendant alleged that if it sold any cartons of that type after May 7, 1957, the date of the patent, which it denied, such sales were of cartons manufactured prior to that date and it was entitled to the benefit of section 58 of the *Patent Act*. The plaintiff pleaded in reply that the defendant had made untrue representations to the Patent Office in order to delay the issue of the patent and,

in effect, charged it with fraud which disentitled it to any exemption from liability under section 58. In respect of cartons of the second type the defendant denied that they were covered by any claim in the patent and counter claimed for a declaration that it was invalid. *Held:* That whether a defendant has infringed the plaintiff's patent is a question of fact and the onus of proof of the alleged infringement is on the plaintiff. 2. That infringement cannot be established by conjecture, that there must be proof of it, that there was no evidence that the defendant manufactured any cartons of the first type after May 7, 1957, and that it did not manufacture any such cartons after that date. 3. That there was no credible evidence that the defendant sold any such cartons after May 7, 1957. 4. That there was no evidence of any improper conduct on the part of the defendant that would disentitle it to the relief that section 58 of the Act would have provided if it had needed to rely on it. 5. That the plaintiff's action must be dismissed to the extent that it alleged infringement by the manufacture or sale of cartons of the first type. 6. That whether the defendant infringed the patent by the manufacture and sale of cartons of the second type depends on the construction of the claims and whether the cartons came within them. 7. That the claims must be construed in order to ascertain what the invention defined by them is. 8. That a patent specification, which includes the claims, is addressed to persons skilled in the art to which the patent relates and that the claims should be read in the light of the common knowledge which such persons are assumed to have. 9. That if the Court is to construe the claims properly it must, as far as possible, be put in the same position as such persons would be. 10. That, ordinarily, this purpose is sought to be accomplished with the aid of expert evidence on such matters as the state of the art at the date of the patent, the meaning of technical terms and terms of art and the working of the invention. 11. That there are cases in which the claims are expressed in such plain and common language that the Court can construe them and ascertain the invention defined by them without any aid beyond the language used in formulating them and that Claim 1 of the patent is a claim of this nature. 12. That an improvement may be an infringement even if it is patentable. 13. That the fact that there are differences between the cartons of the second type and the cartons produced by the plaintiff does not determine the matter of infringement if the terms of Claim 1 are met by such cartons, notwithstanding such differences. 14. That it is essential to ascertain the meanings of the word “transverse” and the term “mutually transverse” in the Claim. 15. That it is an essential requirement of the Claim that there should be at least two partition members and that they should be mutually transverse, meaning thereby that

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each must lie across or be situated or lie crosswise of or athwart the other or be situated or extend across its length. The relationship between the partition members must be a reciprocal one. They must cross one another. 16. That, although there was a seeming difference between the cartons of the second type and those produced by the plaintiff, all the elements specified in Claim 1 were present in them and they functioned in the manner specified in the claim to accomplish the unitary result contemplated by it and that the defendant has infringed the plaintiff's rights under it. 17. That the manufacture and sale of the cartons of the second type also infringed Claims 4, 5, 6 and 7 of the patent to the extent that each includes Claim 1. 18. That the statutory presumption of *prima facie* validity of a patent provided by section 48 of the *Patent Act* is not confined to the attribute of inventiveness but extends to the other attributes that a patent must have if it is to be patentable under the Act, such as novelty and utility, and that the three attributes of patentability, namely, novelty, utility and inventiveness are all presumed to be present in an invention for which a patent has been granted under the Act until the contrary is clearly shown. 19. That the plaintiff starts with the statutory presumption of validity of its patent in its favor, that the onus is on the defendant to rebut it and that the defendant has failed to do so. 20. That there is no support for the contention that the invention covered by the patent lacks utility. The cartons produced by the plaintiff had many advantages over the beer cartons previously in use and enjoyed a substantial market in the Vancouver area. 21. That Claim 1 might extend to a carton other than that of the second type but that does not make it ambiguous or avoidably obscure. Whether it would so extend would depend on whether the particular carton has the elements specified in the claim and whether they function in the specified manner. 22. The fact that the ambit of Claim 1 is broad does not invalidate it if its terms are clear and that the attack on its validity based on the charge of ambiguity and avoidable obscurity fails. 23. That if a patent is to be invalidated on the ground that the invention for which it was granted lacks novelty by reason of the fact that there was a prior use of it the party attacking the patent on that ground must show that the alleged prior use was a use of the invention described and claimed in it. 24. That the principles stated in the cases determining the requirements that a prior patent or other publication must meet before it can be considered as anticipatory of an invention apply with equal force in the case of an alleged anticipation by prior use. 25. That evidence purporting to show that the invention was anticipated by a prior user of it should be subjected to the closest

scrutiny. 26. That the onus of proof of a prior invention is a very heavy one. 27. That the cartons put forward on behalf of the defendant as prior uses of the invention defined in Claim 1 were not prior uses of it. 28. That Claim 1 and Claims 4, 5, 6 and 7 to the extent that each includes Claim 1 are valid. 29. That the defendant's counterclaim is dismissed. 30. That the defendant is entitled to the costs properly attributable to the undue extension of time of the trial by the introduction of the issue of infringement of the patent by the manufacture and sale of cartons of the first type. UNIPAK CARTONS LTD. v. CROWN ZELLERBACH CANADA LTD. 396

6.—*Infringement—The Patent Act, 1935, S. of C., 1935, c. 32, s. 47—Patent Act, R.S.C. 1952, c. 203, s. 48—Commercial success of invention proof of utility—Statutory presumption of validity of patent—Onus of showing patent invalid not easy to discharge—Charges of ambiguity and avoidable obscurity permissible without pleading or particulars—Infringement by taking substance of invention—Doctrine of equivalency applicable only in respect of non-essential feature—Doctrine of equivalency still in effect in Canada—Whether substance of invention taken a question of fact—Whether particular feature of invention essential a question of fact.* The plaintiff sued for infringement of its rights under patent No. 484,515 for an invention relating to an electromagnetic induction ground prospecting method and apparatus for locating subterranean electrically conducting ore bodies through the use of an exploring primary alternating magnetic field and a detector to indicate spacial angle changes of the field due to the presence of a conducting ore body and the secondary alternating magnetic field set up by it. The plaintiff's transmitting unit consisted of a transmitter coil suspended from below the head block of a tripod so that it hung down freely to be orientable in azimuth and connected with a gasoline driven motor generator. The plaintiff's detector or receiving unit consisted of a receiver coil, with an amplifier and a pair of earphones attached to it, mounted on a pole described as its extended axis, its plane being horizontal, with a clinometer mounted on the pole near the top to enable the operator to measure any angles of deviation in the primary field due to the secondary field set up by a conductor ore body if it was present. In order to provide the requisite magnetic field strength the equipment in use prior to the date of the invention was of such a heavy nature that it required five men to carry it. The invention covered by the patent resulted in an equipment that could provide the requisite magnetic field strength and be carried by two men. This was accomplished by the inventors by their discovery that they could control the frequency of the generator so that it would be substantially constant by operating it

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at a frequency below that of the transmitter coil with the result that they could use the maximum power of a small 1.2 horsepower motor and a transmitter that could be carried on the back. They discovered that they could effect the control by using the tuned transmitter coil as a resonant load imposed on the generator that was greater than the maximum power that the motor could supply to it. The resonant load was such that when there was a momentary increase in the power of the motor causing it to speed up the load imposed by the transmitter made it slow down to its normal speed and that when there was a momentary decrease in the power the load brought the speed of the motor back to its normal. The inventors also found that if the transmitter coil was supported with its plane orientated towards the receiver coil and the pole on which the receiver coil was mounted was held in a vertical position so that the axis of the receiver coil was generally in line with the plane of the transmitter coil the risk of phantom or misleading readings by the operator of the receiver coil was reduced to a minimum and they devised a method of prospecting accordingly in which the alignment of the axis of the receiver coil with the plane of the transmitter coil was an essential feature. In the statement of defence the defendants alleged that the claims in suit were invalid and denied infringement of them. *Held*: That the plaintiff's invention has had considerable commercial success in Canada and various parts of the world. 2. That the evidence of the commercial success of the plaintiff's apparatus and prospecting method was convincing proof of their utility. 3. That there is a statutory presumption under section 47 of *The Patent Act, 1935*, of the validity of a patent granted under it and that the onus of showing its invalidity lies on the person attacking it, no matter what the ground of attack may be. 4. That a patentee need not prove the essential attributes of the patentability of the invention covered by his patent before he can succeed in an action for damages for infringement of his patent rights, for he starts with a statutory presumption of their existence in his favor and the onus of showing their non-existence lies on the alleged infringer. 5. That the onus of showing that a patent is invalid is not an easy one to discharge. 6. That the enactment of the statutory presumption of validity effected an important change in Canadian patent law and marked a substantial advance in the protection of a patentee's rights. 7. That the basic concept of control of the frequency of the generator by a load imposed on it by the transmitter coil was a novel one. 8. That a claim for an apparatus may be upheld although it is the operation of the apparatus that is really in issue and that the monopoly in

an apparatus may be validly defined by reference to the result which it is to accomplish. 9. That Claim 8 extends only to motors of the size and weight that a person skilled in the art would be likely to use in connection with a transmitter coil that could be carried on a man's back and was tuned as specified in the Claim and that the Claim is not too wide. 10. That the invention defined in Claim 8 involved the exercise of inventive ingenuity. 11. That charges of ambiguity and avoidable obscurity may be made without any reference to them in the pleadings and without particulars. 12. That the term "frequency regulation" in Claim 8 was not ambiguous or avoidably obscure. Any person skilled in the art would know that, since the frequency of the generator could be controlled, it could be regulated and that if he constructed a transmitter coil so that it formed a resonant load for the generator and effected frequency regulation of it in such a way that the frequency was substantially constant, or that it differed from the determined value of an amount that was not appreciable, he would infringe the claim. 13. That the claims were not ambiguous or avoidably obscure by reason of the fact that they contained no reference to the need for the use of a low frequency or a definition of its range. A person skilled in the art would know that the use of a gasoline driven motor and a generator implied that the frequency emanating from it must be a low one and he would know its range. 14. That all the attacks on the validity of Claim 8 fail. 15. That the interpretation of documents is a matter for the Court and not for witnesses. 16. That the alignment feature of Claim 11 that the receiver coil should be "located generally in line with the plane of the transmitter coil" was not anticipated. 17. That it is not a correct approach to the determination of whether a claim is invalid to pick out an individual feature of the invention defined by it and contend that because it is not new or useful or does not involve the exercise of inventive ingenuity the claim is invalid. The alleged invention must be regarded as a whole. 18. That the use of the term "extended axis" in Claim 11 did not make it invalid for ambiguity. Any person skilled in the art would know the ambit of the term and there was no need for specifying it. 19. That all the attacks on the validity of Claim 11 fail and a similar finding applies to Claim 12. 20. That there is nothing to prevent an inventor from claiming less than his invention if that which he claims is itself an invention.

The defendants denied infringement of Claim 8 on the ground that in the transmitting unit claimed in it the transmitter coil was suspended from below the head block of a tripod "to hang freely in a vertical plane" so that its verticality was ensured by the force of gravity, whereas in the defendants' case the trans-

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mitter coil was bolted rigidly to a mast above a base plate and could not hang in a vertical plane until after the base plate had been made level by the use of a spirit level on it. *Held*: 21. That, since the transmitter coil in the defendants' transmitting unit did not hang "freely", the means of its suspension did not come within the express terms of Claim 8. 22. That Claim 8 is not a claim for a means of suspension of a transmitter coil but for a transmitting unit in which the means of suspension of the transmitter coil is only an accessory that is neither new nor inventive. 23. That the issue in the case was whether the defendants' transmitting unit as a whole was substantially the same as the plaintiff's, notwithstanding the difference in the means of suspension of the transmitter coil. 24. That if a person takes the substance of an invention he is guilty of infringement, even if his act does not in every respect fall within the express terms of the claim defining it. *Clark v. Adie* (1875) 10 Ch. Ap. 667 at 675; (1876-7) 2 A.C. 315 at 320 applied. 25. That if a person takes the substance of an invention he is guilty of infringement and it does not matter whether he omits a feature that is not essential to it or substitutes an equivalent for it. *Marconi v. British Radio Telegraph and Telephone Company Ltd.* (1911) 28 R.P.C. 181 at 217 applied. 26. That a plaintiff can resort to the doctrine of equivalency only in respect of a feature of the invention claimed by him that is not essential to it. 27. That the fact that an element in a combination is particularly described in a claim and differently from its description in another claim or other claims does not make it an essential element in the invention defined in the claims so as to oust the application of the doctrine of equivalency. *Submarine Signal Co. v. Henry Hughes & Son Ltd.* (1932) 49 R.P.C. 149 distinguished. 28. That the doctrine of equivalency is only a particular application of the general doctrine that a patent may be infringed by taking the substance of the invention covered by it. 29. That the doctrine of equivalency is still in effect in Canada and "available for utilization when the proper circumstances arise". 30. That the doctrine of equivalency is not antithetical to the modern concept of patent law, that its retention is still necessary to give inventors the protection against infringers to which they are entitled and that its abandonment would encourage piracy of inventions by taking their substance and omitting or varying some non-essential feature. *Graver Tank & Mfg. Co., Inc., et al. v. The Linde Air Products Company* (1950) 85 U.S.P.Q. 328 at 330 applied. 31. That in every case where it is sought to apply the doctrine of equivalency it must be determined whether the feature in respect of which it is sought to be applied

is an essential one. 32. That the determination of the essence of an invention is not to be made exclusively and solely "on an examination of the language used by the patentee in formulating his claims", without resort to any other aid and without regard to the facts. *R. C. Photophone, Ltd. v. Gaumont-British Picture Corporation Ltd. and British Acoustic Films, Ltd.* (1936) 53 R.P.C. 167 at 197, disapproved. 33. That in order to ascertain the essential features of an invention the specification must be read and interpreted by the light of what was generally known at the date of the patent. *Marconi v. British Radio Telegraph and Telephone Company Ltd.* (1911) 28 R.P.C. 181 at 218 applied. 34. That the inclusion of a particular feature of an invention in a claim does not necessarily make it an essential one so as to exclude the application of the doctrine of equivalency. 35. That the question whether the substance of an invention has been taken is one of fact. 36. That the question whether a particular feature of an invention is essential to it is one of fact. 37. That the feature of the invention defined in Claim 8 referred to as "means to suspend said transmitting coil to hang freely in a vertical plane but orientable in azimuth" was not an essential one, that it was merely an accessory which could be replaced by a mechanical equivalent without making any difference to the invention, that the means of suspending the transmitting coil in the defendants' transmitting unit was a mechanical equivalent of it and that the defendants had taken the substance of the invention defined in the claim and infringed it. 38. That the second named defendant infringed the plaintiff's rights under Claims 11 and 12. *THE MCPHAR ENGINEERING CO. OF CANADA LTD. V. SHARPE INSTRUMENTS LTD. et al.*.....467

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35. Income War Tax Act, R.S.C. 1927, c. 97, ss. 3, 6(d), 68. No. 2.
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58. Unrealized gross profit content of instalments remaining unpaid at end of year not income. No. 2.
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REVENUE—Income tax—The Income Tax Act, 1948, S. of C. 1948, c. 52, ss. 3, 5, 127(1)(e)—Meaning of term “adventure or concern in the nature of trade”.—Negative and positive guides for determining whether transaction an adventure in the nature of trade—Purchase and sale of 1,500 tons of lead a dealing in lead and an adventure in the nature of trade. The respondent was the president and general manager of The Canada Metal Company which was engaged in the business of fabricating various products of non-ferrous metals including lead. It was a wholly owned subsidiary of the National Lead Company of New York which controlled its business policy and restricted its purchases of raw metals to a 30-day supply. Moreover, it had to buy its lead requirements from a Canadian supplier which held it to a quota. The result was that it lost considerable export business. In 1949 lead prices broke sharply and lead from foreign countries was available for the first time at the lower prices. The respondent requested permission from the parent company to allow his company to import foreign lead which meant buying it for future delivery. It was contrary to the parent company's policy to allow its sub-

sidary to deal in futures and the requested permission was refused. The respondent then requested and was given permission to purchase the lead himself and assume the risk involved. He felt that he could get the foreign lead and could not get adequate supplies in Canada. He had the idea that his company needed the lead and decided to buy it himself, sell it to the company and assume personally whatever risk was involved in the transaction. Accordingly, he purchased 1,500 tons of foreign lead through brokers and arranged for its sale to his company at the market price of the lead on its delivery to it. The respondent made a profit on the transaction of \$83,712.24 of which \$70,098.80 was included in his income tax assessment for 1949, that being the amount of the profits received by him in that year. The respondent appealed to the Income Tax Appeal Board which allowed his appeal and the Minister appealed from its decision to this Court. *Held:* That the terms “trade” and “adventure or concern in the nature of trade” are not synonymous expressions and that the profit from a transaction may be income from a business within the meaning of section 3 of the Act, by reason of the definition of business in section 127(1)(e), even although the transaction did not constitute a trade, provided that it was an adventure or concern in the nature of trade. 2. That there could be a “scheme of profit-making” within the meaning of the *Californian Copper Syndicate* case, even if there were only one transaction. 3. That the inclusion of the term “adventure or concern in the nature of trade” in the definition of “business” in section 127(1)(e) of the Act has substantially enlarged the ambit of the kind of transactions the profits from which were subject to income tax. 4. That, while it is not possible to lay down any single criterion for deciding whether a particular transaction was an adventure of trade, it is possible to state some propositions of a negative nature and also to lay down some positive guides. 5. That the singleness or isolation of a transaction cannot be a test of whether it was an adventure in the nature of trade, that while it might be a very important factor in determining whether it was a trading or business transaction, it has no place at all in determining whether it was an adventure in the nature of trade and that it is the nature of the transaction, not its singleness or isolation, that is to be considered. 6. That it is not essential to a transaction being an adventure in the nature of trade that an organization be set up to carry it into effect or that anything should be done to the subject matter of the transaction to make it saleable. 7. That the fact that a transaction is different in nature from any of the other activities of the taxpayer and that he has never entered upon a transaction of that kind before or since does not, of itself, take it out of the category being of an adventure in the nature of trade.

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8. That a transaction may be an adventure in the nature of trade although the person entering upon it did so without any intention to sell its subject matter at a profit, for the intention to make a profit may be just as much the purpose of an investment transaction as of a trading one. The considerations prompting the transaction may be of such a business nature as to invest it with the character of an adventure in the nature of trade even without any intention of making a profit on the sale of the purchased commodity. 9. That the taxpayer's declaration that he entered upon the transaction without any intention of making a profit on the sale of the purchased property should be scrutinized with care. 10. That care must be taken in applying English income tax decisions to a Canadian case. 11. That if a person deals with the commodity purchased by him in the same way as a dealer in it would ordinarily do such a dealing is a trading adventure. 12. That the nature and quantity of the subject matter of the transaction may be such as to exclude the possibility that its sale was the realization of an investment or otherwise of a capital nature, or that it could have been disposed of otherwise than as a trade transaction and may stamp the transaction as a trading venture. 13. That the respondent's purchase and sale of the 1,500 tons of lead was a dealing in lead and an adventure in the nature of trade within the meaning of section 127(1)(e) of the Act and that his profit from it was profit from a business within the meaning of section 3. 14. That the appeal must be allowed. MINISTER OF NATIONAL REVENUE V. JAMES A. TAYLOR 3

2.—*Income tax—Excess profits tax—Income War Tax Act, R.S.C. 1927, c. 97, ss. 3, 6(d), 68—Excess Profits Tax Act, 1940, S. of C. 1940, c. 32—Taxpayer not entitled to anonymity—Duty of accountants in applying accounting systems—Taxpayer in business of selling books and magazines with sale price payable in instalments—Applicability of instalment system of accounting—Unrealized gross profit content of instalments remaining unpaid at end of year not income.* The taxpayer carried on the business of selling books and magazines through door to door canvassers. Its customers paid a small amount on signing the order for them, a further small amount on their delivery and the balance in weekly instalments of about \$1 each. The cost of the books and magazines to the taxpayer was small, but the selling costs and other expenses of the business, including the costs of collecting the instalments, were high. The accounts were poor paying ones. Prior to 1945 the taxpayer kept its accounts and made its income tax and excess profits tax returns on the accrual basis of accounting under which the amounts of the sale prices of

the books and magazines were included in its profit and loss account for the year in which the sales were made, whether they were received or not, subject to an allowance for debts of a doubtful nature, and the expenses were charged as they were incurred, whether laid out or expended or not. In 1945 the taxpayer commenced to report its income on the instalment system of accounting under which it took into income for the year only the gross profit content of the instalment payments actually received by it in the year and charged against such income the expenses of carrying on the business as they were incurred, including commissions, handling and selling costs, general overhead and collected costs. In assessing the taxpayer for the years in dispute the Minister put its accounts back on the accrual basis. The taxpayer appealed to this Court against its income tax assessment for 1945 and its excess profits tax assessments for 1945, 1946 and 1947. It also appealed against its income tax assessments for 1946, 1947 and 1948 to the Income Tax Appeal Board which allowed its appeals and the Minister appealed from its decision. The appeals were heard together. *Held:* That while section 68 of the *Income War Tax Act* gave the taxpayer the right to have the proceedings before the Court held in camera, the section was in derogation of the fundamental principle that court proceedings are open to the public and its operative effect should not be extended beyond its express terms. It did not entitle the taxpayer to the cloak of anonymity or to hide behind a number or conceal the fact that he had appealed against his income tax assessment. 2. That it is the duty of the accountant to apply to the business of his client the system of accounting that is appropriate to it and most nearly reflects its financial position, including its income position, at the time and for the period required. 3. That, in the absence of statutory provision to the contrary, the validity of any particular system of accounting does not depend on whether the Department of National Revenue permits or refuses to allow its use. 4. That if the law does not prohibit the use of a particular system of accounting the opinion of accountancy experts that it is an accepted system and is appropriate to the taxpayer's business and most nearly accurately reflects his income position should prevail with the Court if the reasons for the opinion commend themselves to it. 5. That the instalment system of accounting is a recognized and accepted method of accounting and computing income and is preferable to other systems in the case of articles sold for a price payable in instalments where the down payment is small and the collection risk is substantial. 6. That the unrealized gross profit content of the instalments remaining unpaid at the end of the year was not income of the taxpayer for the year. 7. That the instalment

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system of accounting adopted by the taxpayer under which it excluded from the computation of its income for the year the unrealized gross profit content of the instalments remaining unpaid at the end of the year was appropriate to the taxpayer's business and more nearly accurately reflected its income position than any other system of accounting would do. 8. That there was no prohibition, express or implied, in the *Income War Tax Act* against the use by the taxpayer of the instalment system of accounting in the computation of its income. 9. That the accrual basis system of accounting was inappropriate to the taxpayer's business and the Minister's assessments were erroneous. 10. That section 6 of the *Income War Tax Act* did not apply in the present case. The taxpayer did not transfer or credit any amount from its income to a reserve, contingent account or sinking fund. 11. That the taxpayer's appeals should be allowed and the Minister's appeal dismissed. PUBLISHERS GUILD OF CANADA LTD. v. MINISTER OF NATIONAL REVENUE.....32

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3.—*Income tax—The Income War Tax Act, R.S.C. 1927, c. 97, s. 6(a)—The Income Tax Act, 1948, S. of C. 1948, c. 52, ss. 3, 12(1)(a)—Deductibility of social club admission fees and membership dues paid for senior officers—Whether payments made in accordance with ordinary principles of commercial trading or well accepted principles of business practice—Whether payments made or incurred for the purpose of gaining or producing income from the business—Admission fees and membership fees recurring expenses of appellant.* The appellant had its head office in Montreal and branches and agencies in various parts of Canada. Its business covered a wide range of activity of a fiduciary and personal nature, of which the most important was that of acting as executor and trustee of estates and trusts. It used several means of getting business and gaining or producing income from it but believed that personal contacts by its officers produced the best business results. It required its senior executive officers and branch managers and their assistants to develop personal contacts with those persons from whom it might reasonably expect trust company business. It was part of its policy to require such officers to take an active part in the community life of the locality in which they operated so that when one of its officers was appointed to a position which called for the maintenance or promotion of its business he was required to join a social club in his community, take an active part in community organizations and campaigns, join a service club and the local chamber or board of trade and generally make himself known in the community. The appellant paid the social club

admission fees and annual membership dues of such officers. It had followed this practice for many years but had never claimed a deduction of the amounts so paid until it did so in its income tax return for 1952. The Minister disallowed the deduction and the appellant appealed to the Income Tax Appeal Board which dismissed its appeal and the appellant appealed from its decision to this Court. *Held:* That the principles for the computation of income are not defined in the Act and that it must be ascertained on ordinary principles of commercial trading or well accepted principles of business practice. *Gresham Life Insurance Society v. Styles* [1892] A.C. 309 at 316 followed. 2. That the extent of the prohibition of the deduction of an outlay or expense under section 12(1)(a) of *The Income Tax Act* is less than that of a disbursement or expense under section 6(a) of the *Income War Tax Act*. 3. That in a case under *The Income Tax Act* the first matter to be determined in deciding whether an outlay or expense is outside the prohibition of section 12(1)(a) of the Act is whether it was made or incurred by the taxpayer in accordance with the ordinary principles of commercial trading or well accepted principles of business practice. If it was not, that is the end of the matter. But if it was, then the outlay or expense is properly deductible unless it falls outside the expressed exception of section 12(1)(a) and, therefore, within its prohibition. 4. That the payments of admission fees and annual membership dues made by the appellant were made in accordance with principles of good business practice for trust companies. 5. That, while section 12(1)(a) requires that an outlay or expense must, in the case of a taxpayer engaged in a business, have been made or incurred by him for the purpose of gaining or producing income from his business in order to come within the exception specified in the section, it is not necessary that the outlay or expense should have resulted in income. *Consolidated Textiles Limited v. Minister of National Revenue* [1947] Ex. C.R. 77 at 81 followed. 6. That in a case under *The Income Tax Act* if an outlay or expense is made or incurred by a taxpayer in accordance with the principles of commercial trading or accepted business practice and it is made or incurred for the purpose of gaining or producing income from his business its amount is deductible for income tax purposes. 7. That the payments made by the appellant were made by it for the purpose of gaining or producing income from its business. 8. That the connection between the appellant's gain or production of income from its business and the payments made by it was not remote. 9. That, although the admission fees were paid once and for all for the officers for whom they were paid, they were recurring expenses so far as the appellant was concerned. 10. That the appeal must be allowed. THE ROYAL TRUST CO. v. MINISTER OF NATIONAL REVENUE.....70

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4.—*Income tax—Income War Tax Act, R.S.C. 1927, c. 97, s. 5(p)—The Income Tax Act, S. of C. 1948, c. 52, ss. 3, 4, 26(1)(d), 53, 127(1)(e)—Taxpayer may carry on more than one business—Deductibility of business losses in other years limited to cases of profit from business in which loss sustained.* Prior to 1951 the respondent was in the business of manufacturing and selling textile products at Saint John. At some time prior to October 31, 1950, which was the end of its 1950 fiscal and taxation year, it sold its manufacturing plant and stopped manufacturing but continued to sell the products which the purchaser of the plant manufactured for it. In October or November of 1950 it entered into a joint venture with Ottawa Car and Aircraft Limited for the purchase of certain aircraft engines, related aircraft parts and certain motors. These articles were sold in 1951 by Bancroft Industries Limited as commission agent for the parties to the joint venture and the respondent made a substantial profit from the sale. In 1951 it purchased a stock of canvas shoes from War Assets Corporation and sold them at a profit. The Minister included the profits referred to in the respondent's assessment for its 1951 taxation year. It appealed to the Income Tax Appeal Board against the assessment on the ground that it was entitled under section 26(1)(d) of *The Income Tax Act, 1948*, to deduct from its 1951 profits its losses in 1947, 1948, 1949 and 1950 and the Board allowed its appeal. *Held:* That the right given to a taxpayer by section 26(1)(d) to deduct from his income for a taxation year business losses sustained by him in other years is a departure from the general scheme of the Act and as such must be confined within the expressed limits of the section. 2. That in an appeal from an income tax assessment the Court is not concerned with the correctness of the reasons given by the Minister either for the assessment or for his confirmation of it after the taxpayer's objection to it. The appeal is not from the Minister's reasons but against the assessment, which carries a presumption of validity that enures to it unless the taxpayer who attacks it shows that it was erroneous either in fact or in law. *Dezura v. Minister of National Revenue* [1948] Ex. C.R. 10 at 15 and *Johnston v. Minister of National Revenue* [1948] S.C.R. 486 at 489 followed. 3. That section 26(1)(d) of *The Income Tax Act, 1948*, instead of being less restrictive of a taxpayer's right to deduct business losses than section 5(p) of the *Income War Tax Act* had been, was more restrictive. 4. That section 3 and section 26(1)(d) of the Act contemplate that a taxpayer may carry on more than one business. 5. That it is contrary to the policy declared in section 26(1)(d) that a taxpayer should have the right to deduct from his income for any taxation year a business loss

sustained in another year in a case where his income is not from the business in which the loss was sustained. 6. That since the respondent ceased its manufacturing business prior to 1951 and that was the business in which its losses in 1947, 1948, 1949 and 1950 were sustained and it did not make any profit from such business in 1951, its case came within the limitation of section 26(1)(d) and it was not entitled to deduct any of the business losses claimed by it. 7. That the appeal must be allowed and the Minister's assessment restored. MINISTER OF NATIONAL REVENUE v. EASTERN TEXTILE PRODUCTS, LTD. 86

5.—*Income tax—Surtax—Income Tax Act, R.S.C. 1952, c. 148, ss. 3, 6(1), 32(1), 32(3), 32(4), 32(5), 67(1), 67(10), 67(11)—Surtax on investment income—Dividends from personal corporations investment income in hands of receiver.* In his income tax return for 1955 the appellant included the sums of \$27,648.08 received from Ruth Realty Company Limited and \$5.77 received from Mitchell Consolidated Stores Limited as income received from personal corporations. The two corporations were personal corporations and the sums received by the appellant from them represented respectively their net rental income from real property. In reassessing the appellant for 1955 the Minister added surtax on the said sums. The appellant objected on the ground that the sums were not investment income and not subject to surtax but the Minister confirmed the assessment and the appellant brought the present appeal. *Held:* That the income of the personal corporations was earned income in their hands because it came to them as rental from real property but the income of the appellant did not come to him as rental income from real property. Under section 67(1) of the Act it was deemed to have been distributed to, and received by, him as a dividend and was not "earned income" in his hands within the meaning of section 32(5) of the Act but "investment income" within the meaning of section 32(4) and subject to surtax under section 32(3). 2. That the appeal from the assessment must be dismissed. ALEX W. MITCHELL v. MINISTER OF NATIONAL REVENUE 191

6.—*Income tax—The Co-Operative Associations Act, S. of M. 1916, c. 23—The Companies Act, S. of M. 1932, c. 5—The Companies Act, R.S.M. 1940, c. 36, s. 123, as amended, S. of M. 1943, c. 6, s. 125, s. 127 (SA), as added, S. of M. 1947, c. 7, s. 138—Substance of transaction rather than form to be regarded—Appellant a co-operative marketing association for marketing members' produce—Surplus earned by appellant did not have essential quality of income to it—Surplus earned by appellant not owned by it but held for members.* The appellant was organized as a co-operative association whose membership consisted entirely of producers of poultry, eggs and dairy products who marketed their produce through it. The

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members were not bound to deliver any products to the association but its by-laws were made binding on it and its members. Article 8A of the by-laws provided that the surplus arising from the yearly business of the association should be credited to the members entitled thereto in proportion to the volume of business respectively done with it and also that the association might borrow from the members for a revolving fund to enable it to carry on business amounts up to their shares of the surplus in consideration of the promise of the association to repay such amounts as soon as monies became available for the purpose. When a member delivered produce to the association to be marketed by it he received an advance or first payment and awaited final payment. At the end of each year's operation the association made an accounting to its members. At its annual meeting, held soon after the close of its fiscal year, it passed a resolution, pursuant to Article 8A of the by-laws, whereby the surplus for the past year was allocated and credited to the members entitled thereto and the association borrowed from the members a sum equal to the patronage dividends credited to them to be repaid as soon as monies became available for the purpose. The Minister assessed the association to income tax for each of the years from 1948 to 1951 on the surplus in each year on the ground that it had earned the surplus from its business and was entitled to it. The association appealed to the Income Tax Appeal Board which dismissed its appeals and the appellant appealed from its decision to this Court. The issue in the appeal was whether the surplus referred to was taxable income of the association or held by it for its members to whom it must account. *Held*: That the case is not essentially different in principle from *The Horse Co-Operative Marketing Association, Limited v. Minister of National Revenue* [1956] Ex. C. R. 393.

2. That regard should be had to the substance of the transaction under consideration rather than its form and that it is the true nature of the transactions between the members and the association that falls to be determined. 3. That when the members delivered their produce to the association they did not sell it to the association but delivered it to the association to be marketed by it for them. 4. That the association was not a trading corporation, in the ordinary sense of the term, and did not purchase its members' produce from them. 5. That the appellant was not engaged in "an operation of business in carrying out a scheme for profit making". 6. That the appellant was a co-operative marketing association for the marketing of its members' produce. It was their marketing agency and the means whereby, in their opinion, they would be able, by co-operation with one another through it, to obtain more for their produce

than if they sold it to an outside organization and that when the association received the produce from its members and sold it it did so as the members' marketing agent and held the net proceeds from the sale of the products in that capacity. 7. That the dealings of the members with the association was in their capacity as members acting co-operatively through it as their marketing agent and not in that of patrons doing business with it. 8. That when the association earned a surplus from its business of handling its members' produce for them it did not earn it for itself, but for them and it did not own the surplus. 9. That the surplus did not have the quality of income to the appellant that was essential to its being taxable income in its hands, within the meaning of the test used by Mr. Justice Brandeis in delivering the judgment of the Supreme Court of the United States in *Brown v. Helvering* (1934) 291 U.S. 193, in that its right to the surplus was not absolute and it was not free to dispose of it or to use or enjoy it and that the surplus had to be credited to the members and was held by the association for them and on their behalf. 10. That, in the alternative, if it should be considered that the member's delivery of his produce to the association constituted a sale of it by him to it then the amount credited to him pursuant to Article 8A would be part of the cost of the produce to the Association and there would be nothing left to constitute profit to it. 11. That the appeal from the decision of the Income Tax Appeal Board and from the assessments must be allowed. MANITOBA DAIRY & POULTRY CO-OP. LTD. v. MINISTER OF NATIONAL REVENUE.....195

7.—*Income Tax—The Income Tax Act, S. of C. 1948, c. 52, ss. 11(1)(b), 11(1)(f), 12(1)(a), 12(1)(b), 12(1)(h), 106—Income Tax and Income War Tax Amendment Act, S. of C. 1949, 2nd Sess., c. 25, s. 53, as amended by S. of C. 1950, c. 40—The Income Tax Regulations, as amended by Order in Council P.C. 4443, dated August 29, 1951, ss. 1200, 1201—Deductible allowance in respect of oil or gas well—Computation of base for deductible allowance on individual producing well basis—Aggregate of losses to be deducted from aggregate of profits—Subsections (1) and (5) of section 1201 of Regulations to be read together—Subsection (4) *intra vires*—Deduction under subsection (5) limited to amount of expenditures reasonably attributable to production of oil or gas from well.* The appellant is engaged in the production of oil and gas, the marketing of petroleum products and other related activities. In 1951, it carried on an extensive programme for the exploration and development of oil and gas wells. In computing its income for that year it claimed that the amount of the deductible allowance to which it was entitled under section 11(1)(b) of *The Income Tax Act, 1948* and section 1201 of *The Income Tax Regulations* was \$13,023,666.59, being 33½ per cent of

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\$39,070,999.79, the amount of its profits in 1951 from the production of oil or gas from its producing wells that it operated at a profit in 1951, on the ground that that was the amount of its profits for 1951 that were reasonably attributable to the production of oil or gas from its profitable producing wells. Alternatively, it claimed that if the aggregate of its profits from its profitable producing wells must be reduced, pursuant to subsection (4) of section 1201 of the Regulations, by the aggregate of its losses from the production of its producing wells that it operated at a loss in 1951, which amounted to \$8,066,012.55, the base of its deductible allowance would be \$31,004,987.24 and the amount of its deductible allowance \$10,334,995.74. The appellant's producing department was conducted as a separate entity and the accounts of its producing wells, whether operated profitably or at a loss, were kept on an individual well basis. The profit or loss from each well was determined after charging to it various direct and indirect charges, including the exploration and development expenses directly related to it. The purpose of this system was to determine in the case of each well the profit of the appellant, if any, that was "reasonably attributable to the production of oil or gas from the well". In assessing the appellant, the Minister fixed the amount of its deductible allowance at \$790,067.36, being $33\frac{1}{2}$ per cent of \$2,370,202.07, which he considered to be the amount of its aggregate profits for 1951 from the production of oil or gas from all its wells, whether producing or not or whether profitable or not. In arriving at this amount the Minister reduced the base of \$31,004,987.24 relied upon by the appellant by two amounts, of which the first was \$19,992,588.33, being the amount of the appellant's drilling, exploration and other costs in 1951, which it contended was unrelated and, therefore, not "reasonably attributable" to the production of oil or gas from any of its producing wells, but which the Minister deducted under section 53 of the 1949 Act, as amended, on the ground that they were reasonably attributable to the production of oil or gas in 1951, and the second was \$8,642,196.84 being unrealized profit in supply, manufacturing and marketing inventories. The appellant appealed against the assessment. *Held*: That the computation of the base for the deductible allowance to which the appellant is entitled under section 1201 of The Income Tax Regulations must be made on an individual producing well basis, and, since the appellant operated more than one well, that computation is subject to the definition of the base set out in subsection (4) of the section. 2. That when subsections (1), (4) and (5) of section 1201 of the Regulations refer to profits "reasonably attributable"

to the production of oil or gas it is the production of oil or gas from a producing well that must be considered. 3. That in determining whether there were profits that were "reasonably attributable" to the production of oil or gas from a well subsections (1) and (5) of section 1201 of the Regulations must be read together. 4. That section 53 of the 1949 Act, as amended, allows the deduction for income tax purposes of certain items of expenditure, such as all the costs of drilling, which, ordinarily, would be of a capital nature and not deductible as items of operating expense, and subsection (5) of section 1201 of the Regulations requires it in the computation of the base for the deductible allowance, but the opening words of subsection (5), namely "In computing the profits reasonably attributable to the production of oil or gas for the purpose of this section" plainly limit the compellable deduction of amounts allowed to be deducted under section 53 to amounts of expenditures that are "reasonably attributable" to the production of oil or gas from the well under consideration, and does not require the deduction of amounts of expenditures that are not clearly related to the production of oil or gas from the well. 5. That for the purpose of determining the net result under subsection (4) of section 1201 of the Regulations it is necessary in each case to deal with the well under subsection (1) to ascertain whether there were any profits for the year "reasonably attributable" to the production of oil or gas from it in that year or whether there was a loss. 6. That the proper approach to the ascertainment of the effect of subsection (4) on the computation of the base for the deductible allowance permitted by the section is to look first at subsection (1) and then at subsection (5) to ascertain the individual profits and the individual losses that were "reasonably attributable" to the production from each producing well and then, pursuant to subsection (4), determine the aggregate of the profits and the aggregate of the losses and deduct the latter from the former, the net result constituting the base for the computation of the appellant's deductible allowance. 7. That the profits of the appellant for 1951 that were reasonably attributable to the production of oil or gas from its profitable producing wells amounted in the aggregate to \$39,070,999.79 and that its losses for 1951 that were reasonably attributable to the production of oil and gas from its loss producing wells amounted in the aggregate to \$8,066,012.55 and that, pursuant to subsection (4) of section 1201 of the Regulations, the net result of \$31,004,987.24 was the amount of the appellant's profits for 1951 that were reasonably attributable to the production of oil or gas in 1951 from all the wells operated by it in that year. 8. That the power to enact a regulation determining the amount of the deductible allowance

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permitted by section 11(1)(b) of the Act was granted in the broadest terms, that the section does not specify what the base for the computation of the allowance should be or its amount and that subsection (4) of section 1201 of the Regulations is within the authority of section 11(1)(b) of the Act. 9. That the ascertainment of the appellant's profits "reasonably attributable" to the production of oil or gas from its wells necessarily involves a computation of the expenditures reasonably attributable to such production as well as that of the receipts reasonably attributable to it, that if an expenditure is to be chargeable against a well it must be shown that it was incurred in 1951 and was "reasonably attributable" to the production of oil or gas from such well in that year and that whether a particular expenditure was "reasonably attributable" to such production must, of necessity, be a question of fact and its determination must depend, largely at any rate, on the opinions of persons qualified to express them. 10. That the amount of \$19,992,588.13 which the Minister deducted from the base of \$13,004,987.24 on which the appellant relied represented drilling, exploration and other costs that were not related to the production of oil or gas from any of the appellant's wells and were not charges that could properly be charged against any producing well, that it could not be said that they were reasonably attributable to any production and that the Minister had no right to deduct the amount or any portion of it from the amount of the appellant's profits. 11. That the amount of \$8,642,196.84 which the Minister deducted from the base of \$31,004,987.24 on which the appellant relied represented unrealized profits in supply, manufacturing and marketing inventories that had passed away from the appellant's producing department as if they had been sold to a third party and that the Minister had no right to deduct the amount from the appellant's profits reasonably attributable to the production of oil or gas from its wells. 12. That the appeal from the assessment must be allowed. *IMPERIAL OIL LIMITED v. MINISTER OF NATIONAL REVENUE*. . . 298

8.—Income Tax—Income War Tax Act, R.S.C. 1927, c. 97, s. 5(1)(h)—Income Tax Act, R.S.C. 1952, c. 148, ss. 28(1), 62(1)(i)—Societies Act, R.S.B.C. 1948, c. 311—No claim for exemption unless requirements of exempting section complied with—Taxability of income not affected by purpose to which to be applied. The appellant was incorporated in 1945 under the *Societies Act* of British Columbia. It was an affiliate of a group of Woodward companies that operated stores in various cities. It had been intended to set it up as a tax exempt society under section 5(1)(h) of the *Income War Tax Act* but the requirements for such a society could not

be met. The appellant's object was to assist in providing funds for the payment of pensions to employees and ex-employees of the Woodward companies and it was required to pay its surplus funds from time to time to pension trustees for such employees and ex-employees. In order to be able to carry out its object it was to acquire shares in the Woodward companies and sell them. Immediately after its incorporation it took over the operation of a share sale scheme which had previously been carried on and continued it. Under this scheme it subscribed for large blocks of shares in the Woodward companies and sold them to employees of the companies. The shares were purchased at par with a small down payment and the balance payable in instalments with interest at the rate of 3 per cent per annum on the outstanding amounts. The appellant sold the shares to Woodward company employees at par with a small down payment and the balance payable in small weekly or monthly instalments with interest at the rate of 4 per cent per annum on the outstanding balance. It also took an option to repurchase the shares from the employee on his death or retirement. From time to time the appellant received dividends on shares it had on hand and it also realized capital gains due to Woodward company reorganizations. By January 31, 1953, it had built up a surplus of \$754,019.02 made up partly of capital gains and the balance of accumulated annual operating profits consisting of dividends and the interest differential between the 3 per cent interest that it had paid and the 4 per cent interest that it had received from its employee purchasers. Up to October, 1951, the Woodward companies, under the direction of pension trustees, had paid pensions to employees and ex-employees under the pension schemes that had been set up, but the appellant then took over the provision of funds for the payment of the pensions by the pension trustees and relieved the companies from this operating expense. In the year ending January 31, 1953, the appellant paid the pension trustees a total of \$42,273.23. The deduction of this amount was at first allowed but later disallowed, except for an amount, allowed under section 28(1) of the Act, equal to the amount of the dividends that the appellant had received. The Minister assessed the appellant only in respect of the net interest income received by it in the year, amounting to \$31,503.28. The appellant appealed against this assessment. It was contended for the appellant that it was organized and operated exclusively for a purpose except profit and, therefore, exempt from income tax under section 62(1)(i) of the *Income Tax Act* or that, since it was required to pay its surplus funds to the pension trustees, it did not own the income it had received and was exempt from income tax in respect of it. *Held*: That section 62(1)(i) of the *Income*

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Tax Act is an exempting provision and subject to the rule of construction that a taxpayer cannot succeed in claiming an exemption from income tax unless his claim comes clearly within the provisions of an exempting section of the Act and that every constituent element necessary to the exemption is present in his case and that every condition required by the exempting section has been complied with. *Lumbers v. Minister of National Revenue* [1943] Ex. C. R. 202 at 211 applied. 2. That the appellant was not organized and operated exclusively for a purpose "except profit" and was not qualified for exemption under section 62(1)(i) of the Act. 3. That the purpose of the appellant's organization was to raise money by acquiring and selling Woodward company shares so that it could provide funds for the payment of pensions to Woodward company employees and ex-employees and that it was operated for a profit purpose. 4. That the interest income of the appellant was earned by it as the result of its own operation in dealing with its own property and was owned by it. *Minister of National Revenue v. St. Catharines Flying Training School Limited* [1955] S.C.R. 738 distinguished. 5. That it is a basic principle of income tax law that the taxability of income cannot be affected by the purpose to which it is to be applied after it has been earned. *Mersey Docks v. Lucas* (1882-3) 8 A.C. 891. 6. That the appellant cannot by its own pre-determination of the purpose to which its profit is to be applied make its profit non-taxable. 7. That the fact the appellant was required to pay its surplus funds to the pension trustees cannot nullify the fact that when it acquired its interest income it was its own or save it from liability for income tax in respect of it. 8. That the appeal be dismissed. WOODWARD'S PENSION SOCIETY V. MINISTER OF NATIONAL REVENUE..... 358

9.—*Income Tax—Income Tax Act, R.S.C. 1952, c. 148, ss. 3, 4, 67(1), 67(3), 68(1), 68(1)(c), 139(1)(e)—Companies Act of British Columbia, R.S.B.C. 1936, c. 42—Taxability of profit on sale of timber license dependent on true nature of transaction—Character of income not affected by subsequent use of it—Holding of property for re-sale at a profit not per se proof of profit from adventure in nature of trade—Meaning of adventure or concern in nature of trade—Dealing with subject matter of transaction as trader would do evidence of adventure in nature of trade.* The appellant with his wife and their two children came to Canada in 1940 from what had been Austro-Hungary where he had been in the lumber business for 33 years. After his arrival he engaged in various activities, including a lumber business, in the course of which he caused a company to be incorporated for the purpose of taking over certain assets, including a saw mill and some timber, which he had purchased in the name of the company. In 1945 the mill and

the timber were disposed of and the appellant retired from active business but continued to be the manager of the company which lay dormant until 1952. In 1949 the appellant, who was interested in buying a timber license, was offered a timber license covering land on Cambier Island and bought it in 1950 for \$5,500. It was the last asset in the estate of a company that was in voluntary liquidation. The purchase price came out of funds held by a Trust Company for the appellant's children and the title to the license was taken in the name of the Trust Company which held it in trust for the children. In 1952 the appellant decided to revive the company, his reason for doing so being that he bought a large apartment block in its name, the money for its purchase coming partly from funds held by the Trust Company for the children and partly from himself. He then reorganized the company in such a way that while the beneficial interest in it was entirely in the children he had complete control of it. In 1953 all the assets of the children, including the timber license, were brought into the company, the price at which it was taken being stated to be its fair market value of \$15,000. The timber license was not actually transferred into the name of the company but, pursuant to a direction from the children, the Trust Company held it in trust for the company. There was never any operation of business under the timber license and it remained the property of the company until it was sold in 1955. In that year, after the appellant had listed it for sale he sold it for \$50,000 and the company invested the net proceeds of the sale in common stocks. In its financial statement for 1955 the company showed the profit on the sale of the timber license as a capital profit of \$32,236.68. The company was a personal corporation within the meaning of section 68(1) of the *Income Tax Act*. In 1957 the Minister added the profit of \$32,236.68 made on the sale of the timber license to the profit reported by the company. Pursuant to section 67(3) of the Act this total was deemed to have been distributed to the shareholders of the company and the Minister assessed the appellant, his wife and the two children accordingly. The appellant appealed against his assessment to the Income Tax Appeal Board which dismissed his appeal and he then appealed to this Court. The appellant contended that he had purchased the timber license for an investment only but that when he received the offer of \$50,000 for the license he saw the possibilities of buying other pieces of property with the money and decided to sell. The appellant also contended that since the company's memorandum of association provided that it was incorporated for investment purposes only it did not have the right to engage in business and that if it did so its act was *ultra vires*. And he also contended that if the company engaged in business resulting in a taxable profit it could not be a personal

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corporation and that it, rather than he and the members of his family, should have been assessed for the profit. *Held*: That in order to determine whether the profit on the sale of the timber license was the realization of an investment or a profit from a business, including therein an adventure or concern in the nature of trade, it is necessary to determine the true nature of the transaction relating to the timber license, including its purchase, the manner in which it was dealt with and its sale. 2. That the character of income cannot be affected by the use that is subsequently made of it, so that if the profit from the sale of the timber license was taxable as being a profit from an adventure in the nature of trade it cannot cease to be such by reason of the fact that the amount of the sale price was used to purchase common shares as investments. *Mersey Docks v. Lucas* (1882-3) 8 A.C. 891 applied. 3. That the appellant purchased the timber license in the name of the Trust Company, that when he sold it he acted for the company of which he had complete control and that his conduct must be considered as that of the persons for whom he acted from time to time. 4. That the appellant purchased and held the timber license with the intent, in the interests of the children, of selling it at a profit when what he considered was a good price could be obtained for it. 5. That while the fact that the appellant held the timber license for resale at a profit does not *per se* establish that the profit from its resale was a profit from an adventure in the nature of trade, the fact that the timber license was not the kind of property that is normally used for investment and an annual return from it could be produced only by an operation of business under it and that it was held for resale at a profit without any expectation of a return from it is some evidence that the profit was a profit from an adventure in the nature of trade. *Commissioners of Inland Revenue v. Reinhold* (1953) 34 T.C. 389 distinguished. 6. That the timber license was an asset such as a person engaged in the lumber business would be likely to have, that it would be more fairly regarded as a business or trade asset than as part of a business portfolio and that the actions of the appellant, throughout the whole of the timber license transaction, were like those that might be expected from a trader. 7. That the timber license transaction was an adventure in the nature of trade. 8. That the taxability of the company's profit was not affected by the fact that it was incorporated for investment purposes only. The taxability of the profit depends on the true nature of the transaction and on what the company did, not on what it was empowered or not empowered to do. 9. That the fact that the company's timber license transaction was an adventure in the nature of trade did not put it into the category of having carried on an "active" business in

1955 in such a way as to deprive it of its character as a personal corporation. 10. That the appeal must be dismissed. **ARTHUR STEKL V. MINISTER OF NATIONAL REVENUE** 376
10.—Customs Duty—Customs Act, R.S.C. 1952, c. 58, s. 45—Customs Tariff, R.S.C. 1952, c. 60, Items 688, 476—Words in Customs Tariff to receive ordinary meaning unless context requires special technical or particular meaning—Meaning of words in Customs Tariff a question of fact—Court not to substitute its conclusion for finding of Tariff Board if reasonably made. The appellant imported certain articles called shade guides. These were of various types, some having plastic teeth and others porcelain teeth. They came in small boxes, each having a holder containing twelve blades, each having a tooth fastened to its top by a base metal pin. The teeth on the blades were of different shades. Shade guides were produced by manufacturers of artificial teeth and given to dentists to enable them to select and order an artificial tooth or artificial teeth of a shade that would match the patient's own or other artificial teeth. The dentist put a blade with its attached tooth against the patient's teeth and repeated the process until a matching shade was found. The Minister decided that the shade guides were dutiable according to the material of which they were made. The appellant appealed from this decision to the Tariff Board contending that the shade guides were "artificial teeth, not mounted" under Item 688 of the *Customs Tariff* or, in the alternative, that they were "dental instruments" under Item 476 and, therefore, in either event entitled to entry free from duty. The Tariff Board held that the shade guides were not artificial teeth and were not dental instruments within the ordinary understanding of the words and dismissed the appeal. The appellant then, having obtained leave under section 45 of the *Customs Act*, appealed to this Court from the decision of the Tariff Board on the question of law whether the Tariff Board erred as a matter of law in holding as it did. *Held*: That the right of appeal conferred by section 45 of the *Customs Act* is confined to an appeal, upon leave being obtained from this Court or a judge thereof, upon a question that in the opinion of the Court or judge is a question of law. 2. That it is not within the competence of this Court to draw its own conclusion from the evidence adduced before the Tariff Board, its jurisdiction being restricted to determining whether the Tariff Board erred as a matter of law in holding as it did. 3. That there is no right of appeal from the decision of the Tariff Board on findings of fact and this Court has no right to substitute its own conclusion for the finding of the Tariff Board if there was material before it from which it could reasonably have found as it did. 4. That the construction of a statutory enactment is a matter of law. 5. That if the decision in

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The Deputy Minister of National Revenue for Customs and Excise v. Rediffusion Inc. [1953] Ex. C.R. 221 purports to state as a principle of general application that the meaning of words in a statute is a matter of law only the statement is too broad. 6. That, in the absence of a clear expression to the contrary, words in the *Customs Tariff* should receive their ordinary meaning but if it appears from the context in which they are used that they have a special technical or particular meaning they should be read with such meaning and that the ordinary meaning or special technical or particular meaning of such words is a question of fact. *Girls' Public Day School Trust v. Ereaut* [1931] A.C. 12 applied. 7. That the terms "artificial teeth, not mounted" and "dental instruments", as used in Items 688 and 476 of the *Customs Tariff* respectively, are not defined and should receive their ordinary meaning. 8. That there was plenty of material before the Tariff Board on which it could reasonably declare that the shade guides imported by the appellant were not "artificial teeth, not mounted", and, therefore, not classifiable under Tariff Item 688. 9. That there was ample material before the Tariff Board to warrant the finding that the shade guides imported by the appellant were not "dental instruments" within the meaning of the term in Tariff Item 476. 10. That there was no error as a matter of law in the declaration of the Tariff Board and that the appellant's appeal must be dismissed. *THE DENTISTS' SUPPLY CO. OF NEW YORK v. DEPUTY MINISTER OF NATIONAL REVENUE (CUSTOMS AND EXCISE)*..... 450

RIGHT OF CIVIL SERVANTS TO HAVE OPPORTUNITY PRIOR TO DISMISSAL, OF PRESENTING SIDE OF CASE TO SENIOR OFFICER.

See CROWN, No. 3.

SALE OF ARTICLES MADE PRIOR TO ISSUE OF PATENT NOT AN INFRINGEMENT.

See PATENTS, No. 4.

SECTION 118 OF CIVIL SERVICE REGULATIONS ADDED BY ORDER IN COUNCIL P.C. 1954-1, DATED JANUARY 7, 1954.

See CROWN, No. 3.

SIMPLICITY OF PUTTING IDEA INTO EFFECT NOT AN INDICATION OF OBVIOUSNESS.

See PATENTS, No. 4.

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See PATENTS, No. 4.

STATUTORY DUTY TO DESCRIBE INVENTION.

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STATUTORY PRESUMPTION OF PRIMA FACIE VALIDITY EXTENDS TO ALL ATTRIBUTES OF PATENTABILITY.

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SUBSECTION (4) INTRA VIRES.

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SUBSECTIONS (1) AND (5) OF SECTION 1201 OF REGULATIONS TO BE READ TOGETHER.

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SUBSTANCE OF TRANSACTION RATHER THAN FORM TO BE REGARDED.

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SUPPLIANT ENTITLED TO HAVE VALUE AND DECREASE IN VALUE DETERMINED ON BASIS OF MOST ADVANTAGEOUS USE.

See CROWN, No. 4.

SUPPLIANT NOT ENTITLED TO INTEREST.

See CROWN, No. 4.

SURPLUS EARNED BY APPELLANT DID NOT HAVE ESSENTIAL QUALITY OF INCOME TO IT.

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SURPLUS EARNED BY APPELLANT NOT OWNED BY IT BUT HELD FOR MEMBERS.

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TAXABILITY OF INCOME NOT AFFECTED BY PURPOSE TO WHICH TO BE APPLIED.

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TAXABILITY OF PROFIT ON SALE OF TIMBER LICENSE DEPENDENT ON TRUE NATURE OF TRANSACTION.

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TAXPAYER IN BUSINESS OF SELLING BOOKS AND MAGAZINES WITH SALE PRICE PAYABLE IN INSTALLMENTS.

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TO BE INVALIDATING PRIOR USE MUST BE PRIOR USE OF INVENTION.

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TRADE MARKS—

1. Name of Registrar of Trade Marks to be left out of style of cause. No. 1.
2. No monopoly in use of suffix “-pedic”. No. 1.
3. Registrar of Trade Marks not a party to proceedings. No. 1.
4. Trade Marks Act, S. of C. 1953, c. 49, ss. 2(b), 6(1), 6(2), 6(5), 12(1)(a), 12(1)(d), 13, 16(1)(b), 37, 37(2)(b), 37(2)(c), 37(8), 55(1). No. 1.
5. Trade marks “Sears-O-Pedic” and “Posturepedic” not confusing. No. 1.
6. Trade marks to be looked at in their totality. No. 1.
7. Unfair Competition Act, 1932, S. of C. 1932, c. 38, s. 2(k)(l). No. 1.
8. Use of suffix in two trade marks not a test of confusion. No. 1.
9. Whether two trade marks confusing a matter of first impression. No. 1.

TRADE MARKS—*The Unfair Competition Act, 1932, S. of C. 1932, c. 38, ss. (2)(k), 2(l)—Trade Marks Act, S. of C. 1953, c. 49, ss. 2(b), 6(1), 6(2), 6(5), 12(1)(a), 12(1)(d), 13, 16(1)(b), 37, 37(2)(b), 37(2)(c), 37(8), 55(1)—Use of suffix in two trade marks not a test of confusion—Trade marks to be looked at in their totality—Whether two trade marks confusing a matter of first impression—Trade marks “Sears-O-Pedic” and “Posturepedic” not confusing—No monopoly in use of suffix “-pedic”—Registrar of Trade Marks not a party to proceedings—Name of Registrar of Trade Marks to be left out of style of cause.* The respondent applied on August 7, 1957, for the registration of “Sears-O-Pedic” as a trade mark under the *Trade Marks Act*, stating that it had used the trade mark in association with mattresses since April 18, 1956, and requested its registration in respect of such wares. Pursuant to section 37 of the Act the appellant filed a statement of opposition, dated February 10, 1958, to the respondent’s application, the grounds of opposition being that the trade mark was not registrable because it was confusing with the opponent’s registered trade mark “Posturepedic” which had been registered on June 27, 1953, for use in association with the sale of mattresses etc., that the applicant was not entitled to registration because on the date on which it or its predecessor in title first used the

trade mark or made it known it was confusing with the opponent’s trade mark which had been previously used in Canada by the opponent and its predecessor in title Sears Incorporated and that the trade mark was not registrable because the prefix “Sears-” was primarily the name or the surname of an individual who was living or had died within thirty years. The Registrar of Trade Marks held that the suffix PEDIC was common to the trade and that in the light of this the two word marks were not confusing and he rejected the opposition pursuant to section 37(8) of the Act and notified the parties accordingly. The appellant appealed from this decision. *Held:* That the appeal to this Court granted by section 55(1) of the Act is an appeal from the Registrar’s decision, not from the reasons on which he based it, that the Court is not concerned with whether the reasons given by the Registrar are right or not and that the only question for consideration is whether the Registrar was right in rejecting the opposition. 2. That the use of a suffix in two trade marks is not of itself a test of whether either of them is confusing with the other. 3. That it is not a proper approach to the determination of whether one trade mark is confusing with another to break them up into their elements, concentrate attention on the elements that are similar and conclude that, because there are similarities in the trade marks, the trade marks as a whole are confusing with one another. 4. That trade marks may be different from one another and, therefore, not confusing with one another when looked at in their totality, even if there are similarities in some of the elements when viewed separately. 5. That it is the combination of the elements that constitutes the trade mark and it is the effect of the trade mark as a whole, rather than that of any particular part of it, that must be considered. *British Drug Houses Ltd. v. Battle Pharmaceuticals* [1944] Ex. C.R. 239 at 251; [1946] S.C.R. 50 applied. 6. That the fact that both the respondent’s trade mark “Sears-O-Pedic” and the appellant’s registered trade mark “Posturepedic” both contain the suffix “-pedic” does not determine that the respondent’s trade mark was, either as at April 18, 1956, or as at August 7, 1957, confusing with the appellant’s registered trade mark. 7. That if the two trade marks are looked at in their totality it is clear that the respondent’s trade mark was not and is not confusing with the appellant’s registered trade mark. 8. That the principle of the decision in *Aristoc Ltd. v. Rysta, Ltd.* [1945] A.C. 68 that the question whether two marks are similar must be answered by the judge on whom the responsibility lies as a matter of first impression is applicable to cases under the *Trade Marks Act* and that the first impression made by the respondent’s trade mark “Sears-O-Pedic” would be that

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it is not confusing with the trade mark "Posturepedic". 9. That anyone who saw or heard the two trade marks could not reasonably think that "Sears-O-Pedic" was confusing with "Posturepedic" and it is not likely that anyone who purchased a "Sears-O-Pedic" mattress would think that he was buying the appellant's product, or *vice versa*. 10. That the use of both trade marks in the same area would not be likely to lead to the inference that wares associated with such trade marks are manufactured, sold, leased or hired by the same person. 11. That the respondent's trade mark was and is plainly not confusing with the appellant's. 12. That the appellant does not have a monopoly in the use of the suffix "-pedic" or a right to prevent anyone from using a trade mark in which it was included. 13. That the respondent's trade mark is not "Sears-" but "Sears-O-Pedic" and the contention put forward on behalf of the appellant that the respondent's trade mark "Sears-O-Pedic" was not registrable because the prefix "Sears" is primarily the name or surname of an individual who is living or has died within the preceding thirty years should be dismissed out of hand. 14. That the Registrar of Trade Marks is not a party to the proceedings and his name should be left out of the style of cause. 15. That the appeal must be dismissed. SEALY SLEEP PRODUCTS LTD. v. SIMPSON'S-SEARS LTD.....441

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c. 49, ss. 2(b), 6(1), 6(2), 6(5),
12(1)(a), 12(1)(d), 13, 16(1)(b), 37,
37(2)(b), 37(2)(c), 37(8), 55(1).

See TRADE MARKS, No. 1.

**TRADE MARKS "SEARS-O-PEDIC"
AND "POSTUREPEDIC" NOT
CONFUSING.**

See TRADE MARKS, No. 1.

**TRADE MARKS TO BE LOOKED AT
IN THEIR TOTALITY.**

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**TAXPAYER MAY CARRY ON MORE
THAN ONE BUSINESS.**

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**TAXPAYER NOT ENTITLED TO ANO-
NYMITY.**

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**UNFAIR COMPETITION ACT, 1932,
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See TRADE MARKS, No. 1.

**UNFAIR COMPETITION ACT, 1932,
S. OF C. 1932, c. 38, ss. 11(1)(a),
11(1)(c).**

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SENTIAL TO VALIDITY OF IN-
VENTION OF COMBINATION.**

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**UNREALIZED GROSS PROFIT CON-
TENT OF INSTALMENTS RE-
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**USE OF SUFFIX IN TWO TRADE
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**WHETHER PAYMENTS MADE IN
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TICE.**

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**WHETHER PAYMENTS MADE OR
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OF GAINING OR PRODUCING
INCOME FROM THE BUSINESS.**

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**WHETHER SUBSTANCE OF INVEN-
TION TAKEN A QUESTION OF
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**WHETHER TWO TRADE MARKS
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**WORDS IN CUSTOMS TARIFF TO
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