Chapter 16
Disgorgement of Profits in Canada

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Abstract Canadian law sometimes allows gain-based remedies for certain wrongful acts. There is a strong suggestion that gain-based remedies are available in the common law provinces for torts and perhaps breaches of contract, but the courts have been hesitant. Common law provinces have also been willing to award gain-based remedies for breaches of confidence, in the court's discretion. In the context of infringements of intellectual property rights, which is federal law, the legislation makes clear that gain-based remedies are available, although again this is in the discretion of the court. In both common law and Quebec civil law, in situations where one person is managing the property or affairs of another in a fiduciary capacity, improper gains must be surrendered, although it is arguable that the law ascribes rights acquired by the manager to the principal as the correct legal implementation of the parties' relationship, rather than as a remedy for wrongdoing.

Keywords Disgorgement • Restitution • Remedies • Fiduciary duties • Confidential information • Breach of contract • Intellectual property • Tort

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Introduction

Canada is a federation, with legislative competence shared between the federal Parliament and the ten provincial legislatures.[1] Private law belongs mainly to the provincial level.[2] One province, Quebec, has a civilian system of private law, derived from the customary French law that was applied during the time that it was a colony of France. The other provinces and the territories have adopted the tradition of English common law.

The Supreme Court of Canada has the role of unifying the common law of Canada across the common law provinces. In this it differs from the Supreme Court of the United States. As far as Quebec civil law is concerned, the Supreme Court of Canada is the highest court of appeal, but since there is only one civilian jurisdiction in Canada, the Court does not have a unifying function.[3]

Scope

In common law Canada, as in other jurisdictions, there has been academic debate about the relationship between unjust enrichment, in the strict or narrow sense that denotes an independent cause of action, and gain-based remedies for wrongdoing. Some authors argue that gain-based remedies for wrongdoing can be seen as part of the law of unjust enrichment.[4] But it is not clear how claims that depend on wrongdoing can, at the same time, somehow be independent of the law of wrongs.[5]

[1]The spheres of competence are set out in ss. 91–5 of the Constitution Act, 1867. There are also three territories, which exist by virtue of federal legislation, but which are treated for most purposes as separate jurisdictions at the provincial level. They have their own legislative assemblies and legislate by delegation in areas that belong to the provincial level.

[2]Constitution Act, 1867, s. 92(13).

[3]By s. 6 of the Supreme Court Act, R.S.C. 1985, c. S-26, at least three of the nine judges of the Supreme Court of Canada must be appointed from Quebec. By convention, the number of Quebec judges is exactly three. Another convention is that when an appeal turns principally on a matter of pure civil law, the Court hears the appeal in a panel of five that includes the three Quebec judges, so that those with civilian expertise form a majority.

[4]Maddaugh and McCamus (2004), at 24–2, footnote 4. Another way to read the claim is simply that disgorgement for wrongdoing is part of the law of restitution; this uses "restitution" in a wide sense that goes beyond restitution for unjust enrichment (giving back) and extends to disgorgement for wrongs (giving up).

[5]The idea seems to be that gain-based remedies for wrongdoing require proof of wrongdoing, but may at the same time be independent inasmuch as they might be available even if the plaintiff cannot prove all of the elements of a civil wrong. Maddaugh and McCamus (2004), at 24–2, footnote 4 assert at one and the same time that wrongdoing is required, but that the breach of a legal duty is not required. In Aronowicz v Emtwo Properties Inc., 2010 ONCA 96, 98 O.R. (3d) 641, the Ontario Court of Appeal said, in the context tort claims (at [82]): "Whether the claim exists as an independent cause of action or whether it requires proof of all the elements of an underlying tort aside, at the very least, waiver of tort requires some form of wrongdoing."

The majority view, however, is that unjust enrichment claims do not require proof of any wrongdoing; conversely, any claim that does require proof of wrongdoing is not based on unjust enrichment. A remedy will follow, usually compensation, but in at least some cases, disgorgement of gains. And, since such a case is not based on unjust enrichment, it is not necessary to prove the elements of the cause of action in unjust enrichment, elements that include a deprivation of the plaintiff that corresponds to the enrichment of the defendant.[6] In other words, disgorgement for wrongdoing (unlike restitution for unjust enrichment) is not related to any loss on the plaintiff's part. Other commentators therefore argue that gain-based remedies for wrongdoing are an aspect of the law of remedies for these wrongs, and do not form part of the law of unjust enrichment.[7] The Supreme Court of Canada has aligned itself with this view.[8]

In common law Canada, there are different legal techniques for bringing about disgorgement. Some come from the principles developed by the courts of Equity. One of these is called the "accounting of profits". Some people in fiduciary positions are always required to produce accounts of their management; this is not a remedy for wrongdoing, but is a normal incident of the fiduciary role. Examples would be trustees and agents. Here the obligation to account is primary; it does not arise from wrongdoing but from the relationship and the responsibilities of managing another's property. However, the courts of equity also developed the possibility of ordering an accounting of profits against a party that was not otherwise required to render an account. In this context, it could be used as a way of taking away profits. The accounting, as such, is subject to judicial supervision and legal principles govern it (for example, as to which expenses are deductible). Once the profit is determined through the accounting, the defendant must surrender it.

Another technique is the constructive trust. All trusts are situations in which one person holds property, but owes an obligation to another person to hold the benefit of that property for the other. If the obligation is undertaken voluntarily, it is an express trust; if it is imposed by law, it is a constructive trust or a resulting trust. Therefore, if the outcome of a wrongful act is that the defendant holds particular property, and the court concludes that he is obliged to hold the benefit of that property for the plaintiff, a constructive trust will be declared.

Still another technique comes only from the common law, in the narrow sense that excludes equity. This used to be called "waiver of tort", in the old days when pleading was more formal. Here the idea is simply that in relation to some torts, the plaintiff could have a common law remedy measured not by his own loss, but by the defendant's gain. In the words of the Supreme Court of Canada:

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[6]This element of a "corresponding deprivation" has been asserted many times by the Supreme Court of Canada; for example, Peel (Regional Municipality) v Canada, [1992] 3 S.C.R. 762, 98 D.L.R. (4th) 140; Garland v Consumers' Gas Co., 2004 SCC 25, [2004] 1 S.C.R. 629.

[7]Smith (1992), 672; McInnes (2006).

[8]Soulos v Korkontzilas, [1997] 2 S.C.R. 217 held, in the context of the constructive trust, that some such trusts are based on unjust enrichment and some are based on capturing the profits of wrongdoing.

> Waiver of tort occurs when the plaintiff gives up the right to sue in tort and elects instead to base its claim in restitution, "thereby seeking to recoup the benefits that the defendant has derived from the tortious conduct".[9]

Although the language of "waiver of tort" seemed to have died out, it has recently and strangely been revivified in common law Canada, as will be discussed below.

In Quebec civil law, the split between restitution and disgorgement for wrongdoing is clearer. Unjust enrichment, in the strict sense used by the Civil Code of Québec, is a small and residuary category of the law of obligations.[10] There is a set of codal articles on restitution, that do not apply in unjust enrichment cases (as the Code uses the term unjust enrichment) but rather in cases where a juridical act is annulled, or in cases of undue payments.[11] Thus in Quebec civil law, there are many situations outside of unjust enrichment in which an obligation to make restitution arises (although many of these would be considered cases of unjust enrichment in other systems, and might be described as unjust enrichment in a wide sense by Quebec jurists). Both of these possibilities clearly stand apart from the law of civil wrongs *(responsabilité civile).* As we will see below, the Code does provide for gain-based remedies in some situations that are not cases of restitution or unjust enrichment, as the Code uses those terms.

Gain-based remedies for wrongful conduct are sometimes called "disgorgement damages" or "gain-based damages". The word "damages" has a rather protean connotation in common law.[12] However, liabilities arising from accounting are not traditionally called "damages"; the accounting process leads to an amount which is owed, understood as a liquidated debt claim. In Quebec civil law, as is typical in civilian systems more generally, the word "damages" is usually (except in the case of punitive damages, discussed immediately below) tied to the idea of loss.[13] The gain-based recourses which are available, and which are discussed below, are not traditionally called damages.

In Canadian common law, punitive damages are available when the defendant has been guilty of "high-handed, malicious, arbitrary or highly reprehensible misconduct that departs to a marked degree from ordinary standards of decent behaviour."[14] In Quebec civil law, unlike in many civilian systems, punitive damages are available, but not generally: only where they are authorized by a legislative provision.[15] The

[9]Pro-Sys Consultants Ltd. v Microsoft Canada CIE, 2013 SCC 57, [2013] 3 S.C.R. 477 at [93], quoting Maddaugh and McCamus (2004), 24–1.

[10]C.C.Q., arts. 1493–4.

[11]C.C.Q., arts. 1699–1707.

[12]See the discussion in Edelman (2002), Chap. 1.

[13]For example, C.C.Q., arts. 1611 ff.

[14]Whiten v Pilot Insurance Co., 2002 SCC 18, [2002] 1 SCR 595 at [94]. The Court indicated (at [78]–[83]) that such damages are not available for a "pure" breach of contract, but only if there was a "independent actionable wrong". Somewhat confusingly, however, the breach of a contractual duty of good faith satisfies this requirement.

[15]C.C.Q., art. 1621.

most important examples of such legislative authorization are for breaches of human rights protected by provincial law,[16] which take effect in private law, and breaches of consumer law by a merchant.[17] Punitive damages are left aside in this report, because they are not primarily about capturing a defendant's gains, but rather about punishment and deterrence.

Many common law provinces now have civil forfeiture regimes.[18] These statutes allow a governmental official to bring a civil proceeding (meaning, a non-criminal proceeding) asking a court to conclude, on a civil standard of proof, that some property is the proceeds of unlawful activity. If the court so concludes, the property is forfeited to the government without the need for criminal charges or convictions. This is clearly a kind of disgorgement for wrongdoing, but this subject is not further addressed in this report, since these civil proceedings are founded on criminal wrongdoing (even if the government does not have to prove, in the ordinary way, the commission of a crime).

The subject of this report is gain-based remedies that arise from wrongdoing, not from unjust enrichment. These are recourses that do not pay attention to any loss the plaintiff might have suffered, but are rather calculated by the gain that the defendant acquired from the wrongful act. The report is also confined to private law remedies.[19]

Claims Based on Relationships of Loyalty

Common Law: Fiduciary Duties

Common law Canada has been a leader in the development of fiduciary law and the extension of fiduciary relationships into new areas.[20] Where fiduciaries acquire profits in the course of performing their duties, the usual remedy is the imposition of a constructive trust over the profits. If necessary, the plaintiff can exercise his claim over the traceable proceeds of the original profits.[21] Even if a trust is not possible, for example because the particular property has been dissipated, an account of profits constitutes an alternative remedy; this means that the court inquires into the profits acquired by the defendant, and orders him to pay that amount to the plaintiff. On

[16] Charter of Human Rights and Freedoms, C.Q.L.R. c. C-12, art. 49.

[17] Consumer Protection Act, C.Q.L.R. c. P-40.1, art. 272.

[18] One example is the British Columbia Civil Forfeiture Act, S.B.C. 2005, c. 29.

[19] Some statutes, both federal and provincial, may provide for the disgorgement (or forfeiture) of gains acquired from activity that is criminal or otherwise prohibited by public law. To take one example, the Ontario Securities Act, R.S.O. 1990, c. S.5, ss. 127(1)10 and 128(3)15 allow disgorgement orders for gains acquired in breach of that Act.

[20] See McCamus (1997); Berryman (2009).

[21] Smith (1997); Waters et al. (2012), Chap. 26.

the other hand, where loss is caused, for example by the non-disclosure of a conflict of interest, the plaintiff may secure an award of equitable compensation for loss caused.[22]

The gain-based remedies in fiduciary relationships are often described as arising from "breach of fiduciary duties". However, there is an alternative analysis that has attracted significant support, both from commentators[23] and from the courts.[24] This is that the correct understanding of the fiduciary's obligation to give up gains is not a secondary obligation that arises in response to a wrong; rather it is a primary duty, arising out of the relationship, to transfer to the beneficiary any assets acquired in the fiduciary role. This account allows a clear understanding of many of the features of the fiduciary landscape that are otherwise difficult to explain.[25] It also helps understand why the law attributes not only unauthorized gains and profits, but (if the principal so chooses) loss-making opportunities.[26] All rights, opportunities and information arising in the sphere of fiduciary management are attributed to the principal.[27]

Regardless of the correct theory, profit-stripping claims against fiduciaries are quite common. The Supreme Court of Canada has recently explored the issues in *3464920 Canada Ltd. v Strother*.[28] The plaintiff company operated a successful business that structured tax-assisted film production service opportunities (TAPSF) as an investment vehicle for its clients. The defendant, Strother, a lawyer who worked for the second defendant, the Davis law firm, had been instrumental in creating the appropriate tax instruments. Changes in the tax legislation brought to an end the TAPSF tax shelters. Strother believed that there was no way around the tax changes and he communicated that opinion to the plaintiff, which remained a client

[22] Canson v Broughton, [1991] 3 S.C.R. 534; Hodgkinson v Simms, [1994] 3 S.C.R. 377.

[23] Millet (2012), Miller (2013), Smith (2014).

[24] FHR European Ventures LLP v Cedar Capital Partners LLC, [2014] UKSC 45, [2014] 3 W.L.R. 535, at [33], [46].

[25] For example, it is well-known that fiduciaries cannot reduce their liability by showing that the gain could never have been acquired by the beneficiary (Regal (Hastings) Ltd. v Gulliver (1942), [1967] 2 A.C. 134 (H.L.)). Similarly, the fiduciary must give up his gains even if he did not act against the beneficiary's interest, but rather aligned his interest with the beneficiary so that both profited (Boardman v Phipps, [1967] 2 A.C. 46 (H.L.)). Again, the fiduciary cannot reduce his liability by showing that he could have acquired the gain in a non-wrongful way (Murad v Al-Saraj [2005] EWCA Civ 959). All of these principles show that the obligation to give up the gain is primary and does not depend on proof that the gain is connected to a wrongful act.

[26] In Soulos v Korkontzilas, [1997] 2 S.C.R. 217, an agent acquired an estate in land that his principal wished to acquire, by concealing the vendor's willingness to negotiate. The value of the estate later declined. Nonetheless, a constructive trust was declared, requiring the agent to convey the estate to the principal in exchange for the price he had paid.

[27] The same principle is thus capable of explaining fiduciaries' obligations to disclose information about their fiduciary management; again, this obligation does not depend on wrongdoing but arises from the relationship.

[28] [2007] 2 S.C.R. 177, noted by Valsan and Smith, (2008).

of Davis. Within 2 months of Strother's expressing his opinion to the plaintiff, he learnt of a possible fix from Paul Darc, a former executive of the plaintiff. Together, they formulated a new and successful tax credit scheme. Strother left Davis and went into business with Darc. The new scheme earned Darc and Strother over $64 million in profits.

The plaintiff argued that Strother was obliged to inform it of the new tax scheme that he discovered. The majority held that Strother was in breach of fiduciary duty in that he engaged in a competing business at a time when he was still required under the retainer to advance the business interest of the plaintiff. This conflict compromised Strother's ability to "zealously" advance the interests of the plaintiff. The majority made it clear that fiduciaries may be required to give up profits even when there has been no loss suffered by the beneficiary; this is tied to the objective of ensuring that the fiduciary is not swayed by personal considerations to act in conflict with the client's interests. The profits earned by Strother therefore had to be disgorged.[29]

Quebec Civil Law

The Civil Code of Québec, differently from many civil codes, expressly provides for duties of loyalty, often also regulating conflicts of interest, and it expressly or implicitly provides for gain-based remedies in these situations, sometimes through a requirement of accounting.[30] The relationships that are covered by these provisions are similar to those that are fiduciary in the common law: mandate,[31] partnership,[32] directors of legal persons,[33] and administration of the property of another[34] (which in Quebec law includes the trust).[35]

[29]The majority held that Strother could keep the (substantial) profits that he acquired after leaving Davis; at this point, the conflict was "spent". This was arguably more generous to Strother than traditional equitable doctrine. The majority, however, declined to allow Strother any allowance in respect of what his own skill and experience had contributed, although he was allowed to deduct expenses he had incurred.

[30]See Cumyn (2013).

[31]Arts. 2138, 2143, 2146–7, 2184.

[32]Arts. 2200, 2204, 2238. Partners are also mandataries towards the partnership (i.e. towards one another) (art. 2219), just as common law partners are mutual agents.

[33]Arts. 322–6. The Code states that directors are mandataries of the legal person (art. 321); this however is a legal error, since a mandatary acts under the direction of the mandator, while directors are the ones who decide how the legal person shall act (see Cantin Cumyn (2007), at 234; Cantin Cumyn (2009), at 363–4. The corresponding error is often made in the common law, when it is said that directors are agents of the corporation.

[34]Arts. 1309–14, 1366. Cantin Cumyn argues (ibid.) that the Code's regime of administration of the property of others should be seen as the common law governing all situations where one person holds powers over the legal sphere of another. See generally Cantin Cumyn and Cumyn (2014).

[35]Art. 1278.

Under the previous Civil Code of Lower Canada, the Supreme Court of Canada held that unauthorized profits acquired by a defendant in the course of acting as a mandatary must be disgorged to the mandator. This was said to flow from the obligation to account that is owed by all mandataries.[36] In a more recent case, under the current code, the Superior Court was faced with a faithless real estate agent (mandatary) who had acquired an immovable which the mandator wished to acquire. The Court held that the mandatary could be ordered to transfer the immovable to the mandator.[37] The Court relied on art. 2184, which requires a mandatary to render an account, and to return to the mandator anything the mandatary has received in the performance of his duties, even if what he received was not due to the mandator.[38] In a subsequent case, the Court of Appeal held that disgorgement in cases of misappropriation of corporate opportunities can be ordered under art. 2146.[39] This article forbids a mandatary from using for his own benefit information he obtains in the course of his mandate, and specifically provides for a gain-based remedy in such a case.

Breach of Confidence

Obligations relating to confidential information can arise from contract or fiduciary obligations. But in the common law, there is a free-standing obligation, arising from the equitable tradition, that requires a person to use confidential information only for the purposes for which it was given.[40] In *Lac Minerals Ltd. v International Corona Resources Ltd.*,[41] the Supreme Court of Canada held that obligations relating to confidential information are separate from fiduciary obligations. The Court also held

[36] Bank of Montreal v Ng, [1989] 2 S.C.R. 429.

[37] Lefebvre v Filion (2007), [2008] R.J.Q. 145 (S.C.). The court referred to Bank of Montreal v Ng and also Soulos v Korkontzilas (noting, however, that there are no constructive trusts in Quebec law).

[38] This provision also therefore reflects the approach mentioned above for the common law: the duty to account for everything received in the course of the fiduciary management is not one that arises out of wrongdoing.

[39] Gravino v Enerchem Transport Inc., 2008 QCCA 1820, [2008] R.J.Q. 2178. There is an unofficial translation into English in Welling et al. (2010), 377. The trial judge ordered disgorgement of profits. The Court of Appeal confirmed the jurisdiction to make such an order, but held (with reference to common law and civilian cases and commentary) that the opportunity taken by the departed corporate managers was sufficiently remote that they were not liable to disgorge.

[40] In Quebec civil law, a claim based on breach of confidence would fall under the general regime of extracontractual liability for civil wrongs (responsabilité civile) or contractual liability; as such, and since there are no relevant codal provisions authorizing gain-based remedies, the plaintiff is limited to a claim for compensation of loss. There is a particular disposition (C.C.Q., art. 1612) on the calculation of compensation for the infringement of trade secrets, but it does not authorize a gain-based remedy.

[41] [1989] 2 S.C.R. 574.

that a constructive trust can be imposed to take away the profits of a breach of confidence. More recently, the Court held that there is remedial flexibility in breach of confidence claims: they can lead to constructive trusts, accounting of profits, or compensation for loss.[42]

Subsequent cases have embraced the remedial flexibility approach adopted by the Supreme Court. The reasons for awarding a proprietary remedy of constructive trust,[43] an account of profits,[44] or compensatory damages assessed under the principles of equitable compensation[45] are not always explicitly articulated but depend upon the factual context. A constructive trust is often justified on the grounds of difficulty in quantifying monetary damages particularly for prospective losses.[46] An account of profits is often seen as an alternative to a proprietary remedy, but also is imposed where the breach of confidence relates to information that is "very special", and where the information is likened to "property" that can only be taken from the "owner" through a consensual exchange.

Breach of Contract and Restrictive Covenant Claims

In common law, it remains controversial whether an account of profits remedy can be given for breach of contract.[47] Academic discussion has been generated by the decision of the English House of Lords in *Attorney General v Blake*.[48] A number of Canadian cases have mentioned *Blake* as if it would apply in common law Canada.[49] However, no Canadian common law decision has applied *Blake* for breach of contract as such.[50] Where there have been other claims in breach

[42]Cadbury Schweppes Inc. v FBI Foods Ltd., [1999] 1 S.C.R. 142.

[43]See for example, Murphy Oil Co. v Predator Corp., 2006 ABQB 680 and Minera Aquiline Argintina SA v IMA Exploration Inc. 2007 BCCA 319.

[44]See for example GasTOPs Ltd. v Forsyth 2012 ONCA 134.

[45]See for example, Zoic Studios BC Inc. v Gannon, 2012 BCSC 1322.

[46]Lac Minerals Ltd. v International Corona Resources Ltd., [1989] 2 S.C.R. 574.

[47]The arguments are fully set out in Maddaugh and McCamus (2004), at Chap. 25. In Quebec civil law, there are no relevant codal provisions authorizing gain-based remedies for breach of contract; as such the plaintiff is limited to a claim for compensation of loss.

[48][2001] 1 A.C. 268 (H.L.), approving an argument made in Smith (1994); see McCamus (2003) and McInnes (2001).

[49]See for example, Smith v Landstar Properties Inc., 2010 BCSC 843; Jostens Canada Ltd. v Gibsons Studio Ltd. 1999 BCCA 273; Cassano v Toronto-Dominion Bank, 2007 ONCA 781.

[50]The decision was applied to grant a disgorgement remedy for breach of contract in Amertek Inc. v Canadian Commercial Corp. (2003), 229 D.L.R. (4th) 419 (Ont. S.C.J.), additional reasons at (2003), 39 B.L.R. (3d) 287 (Ont. S.C.J.), further reasons at (2003), 39 B.L.R. (3d) 290 (Ont. S.C.J.); however, this decision was reversed on the ground (inter alia) that there was no breach of contract, (2005), 76 O.R. (3d) 241, 256 D.L.R. (4th) 287 (C.A.), and leave to appeal to the Supreme Court of Canada was refused (2005), 219 O.A.C. 400 (note) (S.C.C.).

of fiduciary duty, breach of confidence, or tort, such relief has been granted in Canada, for the reasons set out in other sections of this report. Similarly, there are cases in Canada that follow the principle enunciated in *Wrotham Park Estates v Parkside Homes Ltd.,*[51] namely, that in the case of the breach of a restrictive covenant over property, damages can be measured on the basis of what a person would negotiate to be released from the performance of the covenant. This measure may represent a percentage of the gains made by the defendant by breaching the restrictive covenant.[52]

Jostens Canada Ltd. v Gibsons Studio Ltd[53] has come closest to awarding an account of profits for breach of contract. The defendant was the plaintiff's agent and misappropriated business opportunities to itself. On an appeal regarding the measure of the award, the British Columbia Court of Appeal held that the remedy should be disgorgement of any benefit obtained by the defendant through its wrong. The particular wrong was the breach of the duty of good faith and fidelity; of course, one might observe that an agency relationship is always a fiduciary relationship.

In *Huttonville Acres Ltd. v Archer,*[54] the defendant was contractually obliged to submit architectural plans and commence building a home in conformity with other terms of the agreement within 120 days of purchasing the land from the plaintiff vendor. The defendant failed to comply with this term and eventually sold the property to a third party, who, ultimately built a home in conformity with the building requirement set out in the agreement. The plaintiff experienced no compensable loss but sought to recover the profits made by the defendant on its resale of the property. The court declined to make any award. The facts did not fit within any criteria where an account of profits had been awarded in the past. There was no fiduciary relationship. The exceptional criteria of *Blake* were not met. The court declined to award damages based on *Wrotham Park,* that is, damages set at a fee that a reasonable person would have paid to be released from the restrictive covenant. This was because the plaintiff had delayed in bringing suit and in registering its covenant in the land registry.

The most recent decision to discuss disgorgement and breach of contract is *Nunavut Tunngavik Inc. v Canada (Attorney General).*[55] The plaintiff represented the Inuit people who had entered into a land treaty with the Canadian federal Crown, the defendant. Under the land treaty agreement the defendant was obliged to create and fund a general environmental and economic monitoring plan by 2003. The plan was never implemented within this period, although after the commencement of the litigation in 2008, the defendant finally created a business case that put the cost of implementation at $11 million over 5 years. A final plan was eventually commenced

[51] [1974] 1 W.L.R. 411 (Ch.).

[52] See Arbutus Park Estates Ltd. v Fuller (1976) 74 D.L.R. (3d) 257 (B.C.S.C.).

[53] 1999 BCCA 273.

[54] 2009 CanLII 55310 (Ont. Sup. Ct. J.), appeal dismissed, 2011 ONCA 115.

[55] 2012 NUCJ 11 (Nunavut Ct. Jus.). Nunavut is one of the three territories in northern Canada.

in 2010. The loss experienced by the plaintiff was the failure to have a monitoring plan put into place in accordance with the time schedules set out in the agreement. The plaintiff saw this plan as providing essential information so that it could exercise better decision-making about land use and environmental protection. In not complying with the agreement the court found that the defendant had breached its fiduciary duty owed to Canada's aboriginal people and its obligation to conform to the "honour of the crown".[56] Infringement of these obligations meant that "at a minimum, . . . the Crown should not be able to derive benefit from its own failure to carry out its obligations and the remedy should vindicate this requirement."[57] The court awarded the plaintiff the amount saved by the defendant in not expending the $11 million to implement the monitoring plan. In the alternative, and if it was not accepted that the Crown owed fiduciary, or fiduciary-like, duties to the plaintiff, the court explored whether it would give a similar remedy for the breach of contract standing alone. Here, the court accepted the plaintiff's argument that the facts brought the case within the exceptional nature of *Blake* and that the plaintiff had proved the "something more"[58] to justify a disgorgement approach. The "something more" is a synthesis of a number of cases and academic writings that suggests an account of profits is available if some of the following criteria are present: that the relationship is "fiduciary-like"; where the breach is opportunistic, heinous or unusually wrongful; where the plaintiff has a legitimate interest in preventing the profit making activity of the defendant; and where damages would be inadequate compensation. In this case, the facts were akin to a fiduciary relationship. Compensatory damages would be nominal and thus inadequate. The plaintiff had an interest to see that the Crown honoured its land treaty agreements so as not to undermine relationships with aboriginal people, a real fear if the Crown was seen to benefit from such a breach.

Intellectual Property

Most of the law on intellectual property belongs to the federal level of government, which means that the relevant legislation applies in all parts of Canada, without regard to the common law-civil law distinction. The legislation provides for the remedy of an account of profits in cases of infringement.[59] The remedy of an account of profits is an alternative to compensatory damages, save in copyright infringement

[56]The obligations that the doctrine of honour of the crown entails have recently been explained by the Supreme Court in Manitoba Metis Federation Inc. v Canada (Attorney General), 2013 SCC 14 at [73].

[57]Note 57 at [210].

[58]Note 57 at [322], [334].

[59]Patent Act, R.S.C. 1985, c. P-4, s.57(1); Trade-marks Act, R.S.C. 1985, c. T-13, s.53.2; Copyright Act, R.S.C. 1985, c. C-42, s. 34.

where the remedies are cumulative subject to minimizing any double recovery.[60] Excluding copyright, a claimant must elect between taking damages or an account of profits. The election can be exercised after determination of liability and after the defendant has been required to produce accounting details that allow the claimant to make an informed choice.[61] Canadian courts have stressed that the rationale for awarding damages or an account in these cases is to provide compensation, avoid an unjust enrichment, and to protect property rights.[62] Punishment is not the goal; punitive damages can be awarded separately and in addition to any damages or account award,[63] although the deterrent effect of an account remedy is also recognized.[64]

The decision to elect an account of profits over compensation is not an unfettered right. Canadian courts have insisted that it lies in the discretion of the court to allow the claimant to elect an account of profits.[65] A variety of factors will influence the court when exercising a discretion concerning an account of profits, including: the complexity and length of the proceedings, excessive delay, misconduct on the part of the plaintiff, and the good faith of the infringer.[66]

Despite the availability of an account of profits remedy in the area of intellectual property, it presents practical challenges in implementation. The remedy requires ongoing dealings between the litigants to determine the extent of the profits made, which can often engage further and complex legal motions before the court. It has been described as "rarely chosen over an enquiry as to damages."[67]

The quantification of an account of profits can be problematic. The preferred method is what is known as the "differential profit approach" in which the claimant is entitled to recover the difference between the profits actually earned by the infringer and what the infringer would have earned had he not infringed upon the claimant's intellectual property.[68] This isolates the profits that flow from the infringement and calls for an apportionment of the profit making aspects of the infringer's activities.[69] There must also be a causal connection between the

[60] Copyright Act, R.S.C. 1985, c. C-42, s. 35.

[61] AlliedSignal Inc. v Du Pont Canada Inc. (1995), 184 N.R. 113, 61 C.P.R. (3d) 417 (Fed. C.A.) at [77]; Wellcome Foundation Ltd. v Apotex Inc., [1992] FCJ No. 1194 (T.D.) at [16].

[62] See Hughes et al. (2005), at §53, and Monsanto Canada Inc. v Schmeiser, [2004] 1 S.C.R. 902 at [101].

[63] Lubrizol Corp. v Imperial Oil, [1996] 3 F.C. 40 (C.A.) at [37].

[64] Strother, above note 28 at [76].

[65] AlliedSignal Inc. v Du Pont Canada Inc., above, note 61 at [77], and Merck & Co v Apotex Inc. 2006 FCA 323 at [127].

[66] Merck & Co. v Apotex Inc., ibid at [134]–[135], and Valence Technology Inc. v Phostech Lithium Inc., 2011 FC 174, at [234].

[67] Beloit Canada Ltd. v Valmet Oy, (1992), 144 N.R. 389, 45 C.P.R. (3d) 116 (C.A.), and Vaver (2011), at 654.

[68] Monsanto Canada Inc. v Schmeiser, above, note 62 at [102].

[69] Lubrizol Corp. v Imperial Oil, above, note 55 at [9].

infringement and the profit. Thus, in the recent decision of the Supreme Court of Canada in *Monsanto Canada Inc. v Schmeiser*[70] the infringement consisted of the use of the plaintiff's patent over modified canola seed, which made the seed immune to the use of the pesticide "Roundup", which could then be sprayed to destroy weeds in any crop. The defendant was found to have infringed the plaintiff's patent, but, because the defendant had not applied Roundup to his crop, and thus no advantage accrued to him from the use of the plaintiff's patented seed, there was no difference in the profitability of his canola crop. The plaintiff's claim for the "profits" from the sale of the crop failed because there was no causal connection to any of the profits. As the court determined, no profits flowed as a result of the infringement.[71] The causal requirement and prospect of apportionment mean that parties can spend an inordinate amount of time attempting to separate the profit into its legitimate and infringing components.[72]

Waiver of Tort

It has long been accepted that there can be disgorgement for at least some torts.[73] It remains unclear, however, whether it is available for all torts. The cases generally relate to torts that protect interests in property.[74] Negligence (unlike many torts in the common law) requires proof of loss. Since loss is constitutive of the cause of action, negligence does not obviously lend itself to gain-based remedies.

Perhaps the most remarkable recent development in Canada concerning disgorgement has been the rise in interest in "waiver of tort". As noted earlier, the phrase is considered out of date, and tied to pleading rules that are no longer relevant.[75] However, the concept has recently been revived in the context of class actions. Canadian provinces have class action legislation in which a class action is "certified" (allowed to proceed) before a substantive determination of the allegations.[76] Certification requires a representative plaintiff to demonstrate a cause of action, that there are two or more claimants, that the claims of the plaintiff class raise common issues for resolution, and that the class action procedure is the preferable procedure for resolving those common issues.[77] In class actions,

[70] Above note 62.

[71] Ibid at [103].

[72] Bayer v Apotex Inc., 2002 CanLII 18194 (Ont. C.A.).

[73] Smith (1992), 672; Berryman (1994).

[74] There is an argument to the effect that many of these cases actually concern not gain, but a form of compensation: not compensation for a loss suffered, but compensation for the value of a right that was misappropriated. See Stevens (2007), Chap. 4.

[75] Above, section "Scope".

[76] Civil procedure belongs to the provincial level of legislative competence.

[77] See for example the Class Proceedings Act, S.O. 1992, c. 6, s.5.

certification is a hotly fought battle. If an action is certified, the claim is usually settled; few actions ever go to trial of the substantive merits.[78]

While the substantive causes of action at the basis of class actions are numerous, many view the negligence action as the way to advance consumer actions. Canada does not have a product liability regime similar to the one in the USA. An impediment to any class action proceeding based upon a negligence claim is that actual proof of loss is an integral part of the substantive claim. This requirement impedes certification because it undermines a claim of a common issue, and more importantly, results in the class action proceeding not being the preferable procedure for resolving those common issues. Against this background, plaintiffs' counsel have argued that suits be brought as waiver of tort claims rather than bringing them as negligence actions. Because waiver of tort favours disgorgement of wrongful gains, a matter that is more readily capable of quantification, this avoids the need for determination of any class individual's actual loss, and so makes the proceeding a preferable procedure for certification.

This was the precise issue in *Serhan Estate v Johnson & Johnson.*[79] The claimants were diabetics who had used blood glucose monitors and strips manufactured by the defendants. At the time of their use, the defendants were aware that on occasion the meter would return a false reading. The claim was brought on various grounds including negligence, negligent misrepresentation, constructive trust, conspiracy and waiver of tort. Only the last claim was certified for a class action proceeding. On appeal to the Ontario Divisional Court, a majority of the court confirmed the certification. However, all members of the court recognized the novelty of the claim, suggesting that it needed a full evidential record upon which to determine whether waiver of tort was available in the circumstances.

Two competing views on the nature of waiver of tort were offered to the court. One was that waiver of tort was confined to property torts; conversion, trespass, and misappropriation of goods, and that it could not be extended to negligence claims. This accepts that waiver of tort is essentially a gain-based remedy that follows on proof of a tort; it may thus be confined to the property torts. The second view was that waiver of tort exists as an independent cause of action available wherever a defendant has profited through wrongdoing. Following certification in *Serhan* the case settled and thus no definitive judicial treatment was accorded the doctrinal parameters of waiver of tort. Subsequent cases, including one in the Supreme Court

[78] As of July 2012 only 17 class actions had gone to a full trial in Ontario despite hundreds being launched. Ontario Law Commission, Review of Class Actions in Ontario (2013) http://www.lco-cdo.org/class-actions-issues-to-be-considered.pdf, at 12.

[79] (2004) 72 O.R. (3d) 296 (Sup. Ct. J.), (2006) 85 O.R. (3d) 665 (Ont. Div Ct.), leave to appeal refused 2007 CanLII 11902; settlement approved, 2011 ONSC 128.

of Canada, have also declined to pronounce on whether waiver of tort is somehow an independent cause of action, or simply a label for a gain-based remedy for torts.[80]

Conclusion

Canadian law clearly allows gain-based remedies. However, it may be that only some of them are remedies for *wrongdoing*. In both common law and civil law, in situations where one person is managing the affairs of another in a fiduciary capacity, it is arguable that the law ascribes rights acquired by the manager to the principal, not as a response to wrongdoing, but simply as the correct legal implementation of the parties' relationship.

In situations of genuine wrongdoing, including breaches of contract and torts, the law is somewhat less clear. There is a strong suggestion that gain-based remedies are available in the common law provinces, but the courts have been hesitant. Common law provinces have also been willing to award gain-based remedies for breaches of confidence, in the court's discretion. In the context of infringements of intellectual property rights, which is federal law, the legislation makes clear that gain-based remedies are available, although again this is in the discretion of the court.

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