

Federal Court



Cour fédérale

Date: 20180713

Docket: T-186-13

Citation: 2018 FC 735

Ottawa, Ontario, July 13, 2018

PRESENT: The Honourable Mr. Justice Brown

BETWEEN:

MAOZ BETSER-ZILEVITCH

Plaintiff

and

**NEXEN INC. AND CNOOC CANADA INC.,
EACH INDIVIDUALLY AND CARRING ON
BUSINESS AS A PARTNERSHIP REFERRED
TO AS THE LONG LAKE OIL SANDS PROJECT**

Defendants

JUDGMENT AND REASONS

I. Overview

[1] The Defendants, Nexen Inc. and CNOOC Canada Inc. [collectively, Nexen or the Defendants] bring this motion for an order declaring that a settlement was reached between the Plaintiff, Maoz Betsler-Zilevitch [Betsler-Zilevitch], and the Defendants, and identifying the terms

of settlement. They also seek an order deeming this action discontinued in accordance with the alleged settlement agreement, together with costs payable forthwith.

[2] For the reasons that follow, I have determined that a settlement was reached; I have also determined the terms of the settlement, that this action should be deemed discontinued, and that the Defendants are entitled to costs of this motion.

II. Background

[3] Betser-Zilevitch is a professional engineer and the owner of Canadian Patent No. 2,584,627 [the Canadian patent] and U.S. patent No. 7,647,976 [the U.S. patent]. The Canada and U.S. patents cover the same invention.

[4] The two patents relate to certain equipment used to inject steam and extract heavy oil from oil sands.

[5] Nexen and CNOOC Canada carried on business as a partnership referred to as the Long Lake Oil Sands Project, which concerns the extraction of heavy oil from the oil sands.

[6] On January 28, 2013, Betser-Zilevitch commenced an infringement action against the Defendants with respect to the Canadian patent. The Defendants defended and counterclaimed; they filed an Amended Statement of Defence and Counterclaim on June 4, 2014.

[7] The parties then engaged in settlement discussions over an eleven-month period. The negotiations are evidenced in letters exchanged between the parties. The first offer to settle was made February 22, 2016, by the Defendants. Thereafter followed four counter-offers including the Defendants' counter-offer of December 2, 2016.

[8] Of great significance to this litigation is the sixth settlement proposal. It was made by Betser-Zilevitch in a letter dated January 25, 2017 [the Betser-Zilevitch Offer]. Nexen accepted this settlement offer in principle by letter dated February 23, 2017, in which Nexen said it would supply draft formal settlement documentation. Betser-Zilevitch then sent a letter to this Court dated March 10, 2017, advising that a "settlement had been reached, subject to formalization, review and execution by the parties of a formal settlement agreement."

[9] Thereafter the parties exchanged further correspondence and three draft settlement agreements. It is most efficient to discuss these documents in the Court's analysis below. However, the following is a brief outline. On March 14, 2017, Nexen sent its draft settlement agreement to Betser-Zilevitch. In a letter dated April 7, 2017, Betser-Zilevitch took issue with a number of aspects of Nexen's draft settlement agreement. By letter dated May 5, 2017, Nexen disagreed with some, but not all, of Betser-Zilevitch's positions, adding they were "prepared to settle the issues between the parties at this time in order to avoid the cost of continuing to litigate" and that "it would be unfortunate if [...] settlement was no longer possible and the parties were required to proceed with the action."

[10] At this point, Betser-Zilevitch retained new counsel. Nexen objected to new counsel because a senior partner, when with another firm, acted for Nexen. However, Nexen went on to say that “the parties have reached an agreement with respect to the key terms of settlement and are in the process of finalizing some minor incidental terms for the purposes of a formal settlement agreement”. Accordingly, “to complete this process expeditiously Nexen is prepared to consent” to the new firm acting for that limited purpose given it would not require disclosure of any confidential information.

[11] By letter dated June 15, 2017, new counsel for Betser-Zilevitch advised that there was no agreement regarding settlement, that all prior settlement offers were withdrawn, and that all offers made by the Defendants were refused.

[12] The Case Management Judge offered Court-assisted mediation which Betser-Zilevitch refused by letter dated August 15, 2017; consequently no Court-assisted mediation took place.

[13] On January 12, 2018, the Defendants filed this motion, seeking an order declaring that a settlement had been reached, and identifying the terms of the settlement.

III. Issues

[14] The issues are:

- A) Was there an intention to create legal relations?
- B) Was there agreement on all essential terms?
- C) What, if any, terms should be implied into the settlement?

IV. Law

[15] The parties and Court agree that considerations relating to finding a binding settlement agreement are set out in *Apotex Inc. v Allergan, Inc.*, 2016 FCA 155 [*Allergan*]. There must be an objective, mutual intention to create legal relations: *Allergan* at para 21. There must be consideration flowing in return for a promise: *Allergan* at para 25. The terms of the agreement must be objectively, sufficiently certain: *Allergan* at para 26. Courts will be reluctant to hold agreements void on the ground of uncertainty, and will rather strive to give effect to the reasonable expectations of the parties, objectively determined: *Allergan* para 28, and see *McCabe v Verge*, [1999] NJ No 272 (NLCA) at paras 17-18 [*McCabe*], referred to in *Allergan* at paras 22, 24, and 33. There must be a matching offer and acceptance on all terms essential to the agreement: *Allergan* at para 30.

[16] A key question then, is whether an honest, sensible business person, when objectively considering the parties' conduct, would reasonably conclude that the parties intended to be bound or not, per *Allergan* at para 32. The fact that a further document is required to formalize the agreement between parties is not an impediment to finding that an oral or written exchange constitutes a binding contract, if the terms in the exchange contain agreement on all of its essential terms: *Allergan* at para 35. Courts may use the subsequent conduct of the parties to shed light on whether there has been an agreement on essential terms: *Allergan* at para 39.

[17] In *Allergan*, Justice Stratas states the following at paras 52-53:

(c) A warning

[52] The foregoing shows that a settlement agreement may be reached quickly without formality and, from a subjective standpoint, sometimes unexpectedly: settlement agreements almost always involve consideration, settlement discussions usually take place in a context where an intention to create legal relations can be presumed, informal discussions can count, a meeting of minds is assessed objectively, an agreement on all essential terms is binding even though the parties are still negotiating over other terms and, unless essential, terms such as the provision of releases can be easily implied into an agreement to complete it. The recent decision of the Supreme Court of the United Kingdom in *RTS Flexible Systems*, above, underscores these points.

[53] This has practical ramifications. If a party does not want to be bound until it has agreed to all terms it subjectively considers essential to the deal, in every offer it communicates it must make that wish objectively clear.

[18] Non-essential terms may be implied into the agreement: *Allergan* at para 33. Other aspects of the law on implying terms in a settlement are set out by the Federal Court of Appeal in *Allergan*:

[33] When courts find that there has been an agreement on essential terms, they will often imply non-essential terms into the agreement: *McCabe*, above at para. 20; *Fieguth*, above; *Hughes*, above at para. 6. The lack of agreement on non-essential terms will not stand in the way of a finding of an agreement. Put another way, “it is not necessary that the original contract include all the ancillary terms that are already implicit in its content”: *Ward*, above at para. 54. “Even if certain terms of economic or other significance to the parties have not been finalized, an objective appraisal of their words and conduct may lead to the conclusion that they did not intend agreement of such terms to be a pre-condition to a concluded and legally binding agreement”: *RTS Flexible Systems*, above at para. 45. For example, assuming an agreement on essential terms is otherwise in place, courts can imply terms concerning the granting of a release, the manner of payment and the timing of payment: *Fleguth*, above at para. 21; *Hodaie v. RBC Dominion Securities*, 2012 ONCA 796 at para. 3;

Imperial Oil Ltd. v. 416169 Alberta Inc., 2002 ABQB 386, 310 A.R. 338. Often these will be “mere formalities or routine language”: *Bawitko*, above at p. 106.

[19] I also find instructive the Ontario Court of Appeal’s decision in *Energy Fundamentals Group Inc. v Veresen Inc.*, 2015 ONCA 514, which outlines long-settled law as to when a court may imply a term into a commercial agreement:

[30] As observed by the application judge, a contractual term may be implied “on the basis of the presumed intentions of the parties where necessary to give business efficacy to the contract or where it meets the ‘officious bystander test.’” (*M.J.B. Enterprises Ltd. v. Defence Construction (1951) Ltd.*, [1999] 1 S.C.R. 619).

[31] The officious bystander test was most famously articulated in *Shirlaw v. Southern Foundries (1926) Ltd.*, [1939] 2 K.B. 206 at 227, [1939] 2 All E.R. 113 at 124 (C.A.):

Prima facie that which in any contract is left to be implied and need not be expressed is something so obvious that it goes without saying. Thus, if while the parties were making their bargain, an officious bystander were to suggest some express provision for it in their agreement, they would testily suppress him with a common: “Oh, of course.”

[32] The business efficacy test in its modern form originated in *The Moorcock* (1889) 14 P.D. 64, [1886-90] All E.R. Rep. 530 (C.A.) at 68:

In business transactions such as this, what the law desires to effect by the implication is to give such business efficacy to the transaction as must have been intended at all events by both parties...

[33] *The Moorcock* concerned a contract between a wharf operator and a ship owner; the court implied a warranty that the ship could be safely moored at the wharf with “the object of giving to the transaction such efficacy as both parties must have intended” (p. 68, 70).

[34] The business efficacy test was reviewed more recently by the Privy Council in *Attorney General of Belize v. Belize Telecom Ltd.*, [2009] UKPC 10, [2009] 2 All E.R. 1127, at para. 22:

Take, for example, the question of whether the implied term is “necessary to give business efficacy” to the contract. That formulation serves to underline two important points. The first, conveyed by the use of the word “business”, is that in considering what the instrument would have meant to a reasonable person who had knowledge of the relevant background, one assumes the notional reader will take into account the practical consequences of deciding that it means one thing or the other. In the case of an instrument such as a commercial contract, he will consider whether a different construction would frustrate the apparent business purpose of the parties. ...

[35] Implication of a contractual term does not require a finding that a party actually thought about a term or expressly agreed to it. Often terms are implied to fill gaps to which the parties did not turn their minds (*Belize Telecom*, para. 31).

[20] On the other hand, a court will not imply a term that contradicts the express language of the contract, or is unreasonable: *G. Ford Homes Ltd. v Draft Masonry (York) Co. Ltd.* (1984), 1983 CanLII 1719 (ON CA), 43 O.R. (2d) 401 (C.A.).


V. Analysis

A. *Was there an intention to create legal relations?*

[21] In this connection, the following written correspondence is of particular relevance.

[22] By letter dated January 25, 2017, Betser-Zilevitch offered to settle the action and counterclaim. The Betser-Zilevitch Offer stated:

In response to Nexen's offer of settlement dated December 2, 2016, Mr. Betser provides the following counter-offer.

1. Mr. Betser will agree to provide Nexen an up-front, fully paid up license to make, construct and use the invention of the Canadian Patent No. 2.584.627 and US. Patent No 7.647.976 for the duration of the Patents;
2. Mr. Betser will provide the defendants with a release of liability with respect to all claims as asserted in the Statement of Claim relating to the above mentioned Patents;
3. Both parties agree to discontinue the main action and counterclaim on a without costs basis;
4. 
5. Nexen will agree to execute a confidentiality agreement in a form acceptable to Mr. Betser, to keep the terms of its settlement agreement confidential.

[23] The Betser-Zilevitch Offer said it would remain open for acceptance until 4:00 pm on February 10, 2017. At the request of the Defendants, this time was subsequently extended until February 24, 2017.

[24] On February 23, 2017, Nexen, through counsel (all correspondence was through counsel) replied it was prepared to "agree in principle" to the settlement terms set out in the Betser-Zilevitch Offer, as follows:

Nexen is prepared to agree in principle to the settlement terms set out in your letter of January 25, 2017. In the circumstances, we will prepare a draft Settlement Agreement which incorporates those terms, as well as other standard settlement terms, for your review.

[25] The exchange of correspondence and settlement discussions also involved efforts by Case Management Judge Tabib respecting a settlement and/or the orderly presentation of the patent infringement action and counterclaim at trial. As such, the parties were required to provide this Court with periodic status reports.

[26] Thus, on March 10, 2017, Betser-Zilevitch's counsel wrote to the Court - with Nexen's consent – to advise that a settlement had been reached subject to formalization, review and execution:

We are counsel for the Plaintiff, Maoz Betser-Zilevitch in the above referenced matter. Further to the Court's Direction of February 15, 2017, which directed that the parties provide a further status update and proposed schedule by March 10, 2017. We advise that a settlement has been reached, subject to formalization, review and execution by the parties of a formal settlement agreement. We therefore write to ask for a further extension of time to provide a new status update and proposed schedule ...

[Emphasis added]

[27] Nexen submits that these three documents confirm the mutual intention to create legal relations, and the formation of a settlement agreement: the Betser-Zilevitch Offer, the Defendants' reply to the Betser-Zilevitch Offer, and Betser-Zilevitch's letter to this Court stating that a settlement had been achieved subject to formalization.

[28] Conversely, Betser-Zilevitch submits the correspondence shows that no settlement was reached. Betser-Zilevitch relies on Nexen's response dated February 23, 2017, which stated the Defendants were prepared to agree only "in principle". Betser-Zilevitch asserts that Nexen's response showed its acceptance was conditional upon the preparation and review of a draft settlement agreement, which would include additional terms. Finally, Betser-Zilevitch points to correspondence from Nexen on May 5, 2017, wherein Nexen stated it was prepared to settle "at this time", thereby indicating the matter was not already settled. Betser-Zilevitch also points to the settlement correspondence sent prior to the Betser-Zilevitch offer in support of its assertion no settlement agreement was concluded.

[29] I am disagree with these submissions.

[30] On a balance of probabilities, I accept Nexen's position. In my respectful view, an honest, sensible business person would understand that there was an intention to create legal relations and a contract in the form of a binding settlement agreement, namely the January 25, 2017, Betser-Zilevitch Offer. In my view, the Betser-Zilevitch Offer constituted an offer capable of acceptance. Also in my view, Nexen's response of February 23, 2017, constituted acceptance of the Betser-Zilevitch Offer. There is no doubt that there was consideration: the settlement ended the litigation. All that remained was the formal documentation, or as Nexen put it, preparation of "a draft Settlement Agreement which incorporates those terms, as well as other standard settlement terms."

[31] Betser-Zilevitch submits that a settlement agreement “in principle” is not a settlement agreement in this case. I disagree. This is a fact-dependent and fact-specific inquiry. On the facts of this case, given the almost year-long history of negotiations in which each side sought ground from the other, and given the eventual meeting of minds evidenced by the Betser-Zilevitch Offer and Nexen’s acceptance of February 23, 2017, I find on a balance of probabilities that an honest, sensible business person, when objectively considering the parties’ conduct, would reasonably conclude that the parties intended to be bound, that is, the parties had at last, come together with mutual intent to create legal relations, and that they had concluded a binding settlement agreement which they reduced to writing.

[32] As noted in *Allergan* at para 35, requiring additional documentation to formalize a settlement agreement is not an impediment to finding that a written exchange constitutes a binding contract. That is the case here; nothing more was required to constitute a binding settlement agreement.

[33] If this was not clear enough from the history, including most specifically, the offer and acceptance exchanged by the parties, Betser-Zilevitch’s status letter to the Court affirming that “a settlement has been reached, subject to formalization, review and execution by the parties of a formal settlement agreement”, confirms - in words chosen by Betser-Zilevitch - that a settlement was reached, subject to formalization.

[34] Betser-Zilevitch did not equivocate with the Court, nor in my view could he have. He did not state that a settlement was being negotiated, that a settlement was almost reached, or that one

would likely be reached with one or another degree of confidence. Nor did Betser-Zilevitch state there were ongoing settlement discussions, or that there was agreement subject to a contract not yet concluded.

[35] Betser-Zilevitch's letter was a letter to the Court, a Court with jurisdiction over the patent litigation he had commenced, and a Court that had done what it could to assist both parties to resolve their issues or proceed to trial. There is no suggestion Betser-Zilevitch's representation to this Court was anything but truthful. It is also unequivocal; it states that a binding settlement had been reached. This Court was entitled to rely on Betser-Zilevitch's March 10, 2017 representation then, and in my respectful view is equally entitled to rely on it now. The letter to the Court is convincing evidence of the intent of both parties to create legal relations in the form of the settlement agreement Betser-Zilevitch himself proposed on January 25, 2017.

[36] Betser-Zilevitch's letter to the Court is the classic example of post-settlement conduct confirming the fact that a binding agreement was made by these parties: the letter was sent on consent.

[37] Betser-Zilevitch's counsel urges me to find otherwise, pointing to the five previous offers and counter-offers made prior to the January 25, 2017 Bester Offer. However, viewed objectively, I am unable to find that the exchange of the previous five offers and counter-offers constitutes anything but additional evidence that both parties sought a binding settlement agreement. They had retained counsel. They were going back and forth on a number of issues, including the amount Nexen was to pay Betser-Zilevitch for the settlement. They were reaching

for a settlement and a meeting of minds. They were seriously bargaining and negotiating. I cannot but conclude their mutual intention was to reach a settlement to create binding legal rights, which is exactly what they eventually did.

[38] There is nothing unusual in parties moving back and forth over time on various issues, probing for possible common ground during the course of settlement negotiations. Nor is there anything unusual in each party trying to gain some additional advantage during settlement discussions. This is what occurred in the prior five exchanges.

[39] It is true that none of the prior five offers and counter-offers resulted in a settlement. However, the absence of a settlement in the first five back and forth exchanges does not give reason to doubt the parties, with mutual intention, ultimately created legal relations as set out in their binding settlement agreement. If it were otherwise, many if not most negotiated settlements would be on precarious legal ground. There is no merit in Betser-Zilevitch's argument that because the parties had been negotiating, they could not have reached a settlement.

[40] When the parties found common ground, as they did on the January 25 and February 23, 2017, their correspondence documented their mutual intent to create legal relations, and set out their binding settlement agreement.

[41] **Summary: Both parties intended to and did create legal relations in a settlement offer in the form of the Betser-Zilevitch Offer.**

B. *Was there agreement on all essential terms?*

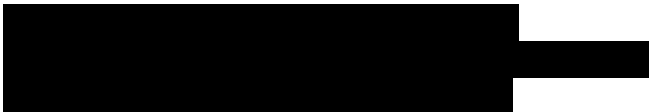
[42] The short answer in my view is yes. It is best to review this issue in the context of the Betser-Zilevitch Offer, Nexen's response, and the Betser-Zilevitch reply.

[43] After having achieved a binding settlement agreement, both Nexen and Betser-Zilevitch attempted to gain additional advantages over and above the terms of the settlement agreement itself. These changes in position are advanced by Betser-Zilevitch as evidence of an absence of agreement on essential terms. I disagree with this interpretation.

[44] The material positions taken by the parties after the settlement agreement of January 25 and February 23, 2017 are set out in three letters.

[45] The first was sent by Nexen with its draft settlement agreement dated January 25, 2017:

In response to Nexen's offer of settlement dated December 2, 2016, Mr. Betser provides the following counter-offer.

1. Mr. Betser will agree to provide Nexen an up-front, fully paid up license to make, construct and use the invention of the Canadian Patent No. 2.584.627 and US. Patent No 7.647.976 for the duration of the Patents;
2. Mr. Betser will provide the defendants with a release of liability with respect to all claims as asserted in the Statement of Claim relating to the above mentioned Patents;
3. Both parties agree to discontinue the main action and counterclaim on a without costs basis;
4. 
5. Nexen will agree to execute a confidentiality agreement in a form acceptable to Mr. Betser, to

keep the terms of its settlement agreement confidential.

[46] The second letter was sent by Betser-Zilevitch, dated April 7, 2017, with Betser-Zilevitch's draft settlement agreement. With respect to the release, Betser-Zilevitch stated:

Mr. Betser has not agreed to provide a release to any assignees, joint venture partners or customers of Nexen ("Nexen" as defined in the agreement). As such, we have struck these from the agreement. Mr. Betser also will not agree to release Nexen from claims assertable under either patent as Mr. Betser may continue to have such a claim if Nexen steps outside the boundaries of the license.

[47] With respect to the license, Betser-Zilevitch stated:

With reference to our settlement agreement, Mr. Betser is not providing a license to Nexen's directors, officers, employees, assigns, joint venture partners or customers. As such we have struck these from the agreement. Nor did Mr. Betser agree to provide a license for anything other than the right to make, construct and use, as such we have removed the terms "offer to sell", "sell", and "import and export."

[48] In regard to providing Nexen notice of any sale or assignment, Betser-Zilevitch stated:

Mr. Betser will only agree to provide Nexen notice of any sale or assignment within 30 days after the closing of such. Mr. Betser does not agree to provide such covenant but will agree to have Nexen register its license with the Patent Office. We propose that the agreement be split into two parts, (a) the Settlement Agreement which will attach (b) the License Agreement. This will allow Nexen to disclose the License Agreement as required, without having to disclose the confidential terms of the settlement agreement.

[49] With respect to confidentiality, Betser-Zilevitch varied his original offer to add the following language to the confidentiality clause:



[50] The third letter was sent by Nexen, dated May 5, 2017, along with a further draft:

We are writing in response to your letter of April 7, 2017 and your proposed amendments to the draft Settlement Agreement between the parties. As discussed in detail below, and as reflected in the attached revised Settlement Agreement, the majority of your proposed amendments are unacceptable to Nexen, and seek to depart from the settlement terms previously agreed to in principle by the parties. Moreover, for the reasons discussed previously, Nexen denies that it has infringed Mr. Betser's patent, and believes that the patent is invalid on a number of grounds. Notwithstanding, Nexen is prepared to settle the issues between the parties at this time in order to avoid the cost of continuing to litigate. However, Nexen requires certainty regarding its freedom to operate in respect of future conduct; otherwise, there is little benefit to settlement.

[51] In regard to Betser-Zilevitch's comments regarding the release clause, Nexen stated:

With respect to the release, Nexen will not agree to your proposed alteration to the scope of the release, including the removal of the U.S. patent. In addition, Nexen will not agree to the deletion of "assigns, joint venture partners and customers". Otherwise, Nexen would be in a situation where any subsequent assigns, joint venture partners and/or customers of Nexen could be sued by Mr. Betser, notwithstanding the settlement and license as between Mr. Betser and Nexen.

[52] With respect to Betser-Zilevitch's comments regarding the license, Nexen stated:

As you will note in the attached revised Settlement Agreement, in accordance with your suggestion, we have separated the license from the settlement, and included a Patent License Agreement as Appendix "B" to the Settlement Agreement. With respect to the

deletion of “assigns, joint venture partners and customers” from the license, we have the same comments as set out above in respect of the release. Nexen also will not agree to the deletion of “directors, officers, employees” as such individuals must also covered by the license. Finally, Nexen will not agree to the deletion of “offer to sell, sell, import and export”. The license must cover all activity relating to the Canadian and U.S. patents that might be considered to be an infringement of Mr. Betser’s rights in the patents.

[53] In regard to any future sale of the patents, Nexen noted:

Nexen will not agree to the majority of your proposed deletions to this paragraph. Again, Nexen requires certainty that its rights pursuant to the settlement and license with Mr. Betser will continue subsequent to any transfer, assignment or sale of the Canadian and/or U.S. patents by Mr. Betser.

With respect to your concerns with the requirement that Mr. Betser notify Nexen in advance of any sale, assignment or transfer of the Canadian and U.S. patents, Nexen will agree not to take unreasonable steps in respect of any such sale, assignment or transfer by Mr. Betser, subject to the terms of the agreement. Nexen will also agree to register its license rights in the Canadian patent with the Patent Office.

[54] With respect to confidentiality of [REDACTED] the settlement agreement, Nexen stated:

Nexen will not agree to Mr. Betser’s proposed amendments [...]. Mr. Betser is free to disclose the fact that the Federal Court action was settlement as between the parties, but the terms of the settlement, [REDACTED], must remain confidential.

[55] The exchange of drafts deal with the following points.

- (1) **The Release Clause: Betser-Zilevitch’s Attempt to Exclude the U.S. patent**

[56] Betser-Zilevitch included both the Canadian and U.S. patents in his January 25, 2017 settlement offer. Faithful to this, Nexen included both the Canadian and U.S. patents in their first draft release. However, Betser-Zilevitch attempted to remove the U.S. patent from the release in its response of April 7, 2017. However, Betser-Zilevitch, but did not challenge inclusion of the U.S. patent in the license. In its May 5, 2017 reply, Nexen disagreed with removing the U.S. patent from the release clause and re-included it in its draft. It appears Betser-Zilevitch maintains the release should exclude the U.S. patent – however Betser-Zilevitch’s pleadings do not speak to whether the U.S. patent should be included in the release.

[57] In my respectful view, there is no merit in Betser-Zilevitch’s position that the U.S. patent should be excluded from the release. Betser-Zilevitch himself, in his offer of January 25, 2017, specified that the scope of the release was to include both the Canadian and U.S. patents. The Betser-Zilevitch Offer refers to patents in the plural “Patents” : “2. Mr. Betser will provide the defendants with a release of liability with respect to all claims as asserted in the Statement of Claim relating to the above mentioned Patents.” The “above mentioned Patents” refers to clause 1 of the January 25, 2017 settlement offer where two patents are referred to – the Canadian and the U.S. patents.

[58] In my view, excluding the U.S. patent was an attempt – by Betser-Zilevitch - to obtain more (by giving less) than was offered on January 25, 2017. Betser-Zilevitch seeking to exclude the U.S. patent does not evidence a lack of agreement on an essential term. The essential term agreed upon was that both patents would be covered in the release, as Betser-Zilevitch offered on January 25, 2017. In my view, no honest, sensible business person, when objectively considering

the parties' conduct, would reasonably conclude the parties intended to be bound by a settlement that excluded the U.S. patent.

[59] **Summary: The release clause includes both the Canadian and the U.S. patent.**

(2) **The License: the Right to Sell**

[60] Nexen proposed, but Betser-Zilevitch objected, to Nexen's draft license because it expanded the scope of the license rights to include a right to "offer to sell, sell, import and export the subject matter thereof" [the Right to Sell].

[61] The Right to Sell is the fourth of four rights granted by Parliament to patent holders such as Betser-Zilevitch by section 42 of the *Patent Act*, RSC, 1985, c P-4 "making, constructing and using the invention and selling it to others to be used":

Grant of Patents

Contents of patent

42 Every patent granted under this Act shall contain the title or name of the invention, with a reference to the specification, and shall, subject to this Act, grant to the patentee and the patentee's legal representatives for the term of the patent, from the granting of the patent, the exclusive right, privilege and liberty of making, constructing and using the invention and selling it to others to be used, subject to adjudication in respect thereof before any

Octroi des brevets

Contenu du brevet

42 Tout brevet accordé en vertu de la présente loi contient le titre ou le nom de l'invention avec renvoi au mémoire descriptif et accorde, sous réserve des autres dispositions de la présente loi, au breveté et à ses représentants légaux, pour la durée du brevet à compter de la date où il a été accordé, le droit, la faculté et le privilège exclusif de fabriquer, construire, exploiter et vendre à d'autres, pour qu'ils

court of competent
jurisdiction.

l'exploitent, l'objet de
l'invention, sauf jugement en
l'espèce par un tribunal
compétent.

[Emphasis added]

[Nos soulignés]

[62] No one disputes that the Right to Sell was not included in the Betser-Zilevitch Offer: it was not. Nexen, in its reply of May 5, 2017, said the Right to Sell should remain in the license. However, in its Court filings, Nexen no longer asks for the Right to Sell.

[63] In my view, the Right to Sell is not an essential term in this case. The Right to Sell is not found in the Betser-Zilevitch Offer. I see no reason why the Right to Sell objectively or reasonably should be implied in the circumstances. The parties were represented by counsel. They would or should have known that section 42 of the *Patent Act* identifies four key rights afforded to patent holders like Betser-Zilevitch. The four rights granted by section 42 may be granted or withheld as the patent holder wishes; they are property of the patent holder. Nexen accepted a settlement agreement that did not contain the Right to Sell.

[64] Seeking to obtain the Right to Sell in the formal documentation was, in my view, an attempt – this time by Nexen – to obtain more from Betser-Zilevitch than Betser-Zilevitch offered on January 25, 2017, and importantly, more than Nexen agreed upon and accepted by its letter of February 23, 2017. Nexen's attempt to get more than was previously agreed does not, in my view, constitute evidence that there was no agreement or even disagreement at the time the settlement agreement was made on January 25, 2017 (offer) and February 23, 2017 (acceptance). In my view, no honest, sensible business person, when objectively considering the parties

conduct, would reasonably conclude that the parties intended to be bound by a settlement agreement that contained the Right to Sell.

[65] **Summary: the January 25, 2017 settlement agreement does not include the Right to Sell.**

(3) **The License: Parties Covered**

[66] The Nexen draft settlement of March 14, 2017, extended the parties to whom a license would be granted to: “Nexen and its respective subsidiaries, parent companies, Affiliates, directors, officers, employees, successors, assigns, joint venture partners, and customers”. The license aspect of the Betser-Zilevitch Offer only referred to Nexen. However, by letter dated April 7, 2017, Betser-Zilevitch’s draft settlement agreement limited the license to include subsidiaries, parent companies, Affiliates, and successors. Betser-Zilevitch was not prepared to extend the license to Nexen’s respective directors, officers, employees, assigns, joint venture partners or customers.

[67] It is important to note that the parties were not engaged in a discussion about a license in general terms. Nor were they dealing with a license in the abstract or hypothetical. The issue at hand was the settlement of the patent litigation: the claim and counterclaim. The parties agreed there would be *both* a license and a release. They could have simply settled on a release, but they did not. They specifically agreed to a license and a release. The Court should strive to give effect to this aspect of their settlement agreement per *Allergan* at para 28.

[68] In the context of this settlement containing both a release and a license, my view is that the licensed parties are the same parties exposed to liability in the lawsuit to be settled, i.e., those to be released. I reach this conclusion because I find that an honest, sensible business person would reasonably conclude that the parties did not intend to be bound by a term limited to granting a license only to Nexen's respective subsidiaries, parent, and successors, as suggested by Betser-Zilevitch.

[69] I pause to note that Betser-Zilevitch changed its position on including "Affiliates", which is a defined term in the license clause. Betser-Zilevitch's April 7, 2017 draft agreement did not challenge Nexen's inclusion of the term "Affiliates" in the license and release clauses, despite challenging the inclusion of "directors", "officers", "employees", "assigns", "joint venture partners", or "customers", discussed below.

[70] However, in his submissions to this Court, Betser-Zilevitch opposed extending the license to "Affiliates". Betser-Zilevitch submitted that, based on the definitions of "Affiliate" and "control" in the Nexen draft of March 14, 2017, there were at least eight Affiliates of Nexen who were ultimately owned by the Government of China's state-owned Assets Supervision and Administration Commission:

- A. CNOOC Limited, China's largest offshore crude oil and natural gas producer and one of the world's largest independent oil and gas exploration and production companies;
- B. China National Offshore Oil Corporation (CNOOC), a "mega government owned company operating directly under the State-owned Assets Supervision and

Administration Commission of the State Council of the People's Republic of China.”;

- C. China National Petroleum Corp. (CNPC), a large state-owned enterprise managed by the State-owned Assets Supervision and Administration Commission of the Government of China;
- D. PetroChina Company Limited, one of the largest oil companies in the world;
- E. PetroChina Canada, which is directly active in Alberta's oil sand industry through its operations at the MacKay River Commercial Project;
- F. China Petrochemical Corporation (Sinopec Group), a major state-owned energy and chemicals company in China which was ranked the 3rd largest company by revenue on the Fortune Global list in 2017;
- G. Sinopec International Petroleum Exploration and Production Corporation (SIPC), the parent of Sinopec Canada; and
- H. Sinopec Canada, an oil and gas company operating in the Canadian oil sands and heavy oil industry.

[71] Betser-Zilevitch's settlement offer of January 25, 2017, did not mention Affiliates, let alone those captured in Nexen's draft as just noted. I do not accept that if asked by the officious bystander, the parties would, with one voice, have agreed to the list of Affiliates as outlined by Betser-Zilevitch in the preceding paragraph; Betser-Zilevitch would have said 'no', and with good reason. Thus, I am unable to imply a term to that effect into the settlement agreement. The Affiliates known at the time are the two Defendants; I see no need to add them under the

definition of Affiliates given they are named parties to the settlement agreement already. The addition of Affiliates was a non-essential term.

[72] Using the officious bystander test, in my respectful view the parties would have agreed to add in the license clause, “directors”, “officers”, “employees” and “assigns”. I reach this conclusion because companies act through people. In my view, the parties would agree that it makes no sense to settle a patent infringement lawsuit with a release or licenses offered limited to corporate entities where the activity to be licensed or released would be or was actually carried out by individuals; they too would need the protection of both a release and license or be exposed to further litigation. Otherwise, what is given in one hand may be taken by the other, resulting in a release and license that might be substantially meaningless.

[73] I would also add “assigns” to the license clause because in my view, the honest, sensible business person would reasonably conclude that assigns should be treated the same as “successors” and Betser-Zilevitch agreed to license successors. Grammatically, also, the two nouns, successors and assigns, modify ‘subsidiaries, parent companies, Affiliates, directors, officers, employees.’ Using the officious bystander test, in my respectful view the parties would have agreed to add “assigns.”

[74] In terms of joint venture partners, the only joint venture partner referred to in the material before the Court on this motion is that constituted by Nexen and CNOOC Canada, carrying on business as the partnership referred to as the Long Lake Oil Sands Project. In my view, a sensible, honest business person would reasonably conclude that the parties intended that the

Long Lake Oil Sands Project be protected by the release and license. That joint venture partnership is at risk in the litigation. Using the officious bystander test, in my respectful view the parties would have agreed the Long Lake Oil Sands Project was included as a joint venture partner.

[75] According to the uncontested evidence filed by Betser-Zilevitch, Nexen is involved with at least ten other joint venture partners:

Suncor Energy Inc.;

Devon Energy Corporation;

Harris Corporation;

Imperial Oil Resources Limited;

Mocal Energy Limited;

Sinopec Oil Sands Partnership;

Canadian Oil Sands Partnership #1;

Suncor Energy Ventures Partnership;

Syncrude; and

Japan Canada Oil Sands Limited (JACOS)

[76] In my view, to extend the license or release to any joint venture partnerships other than Long Lake Oil Sands Project would effectively create and be tantamount to granting the Right to Sell, which, as discussed above, was intentionally excluded from the binding settlement agreement based on the January 25, 2017 Betser-Zilevitch Offer. Therefore, no other joint venture partnership is included in the license and release clauses.

[77] I have also concluded that unidentified “customers” should be excluded from the license and release. No other customer is identified in the record. Nexen’s effort to seek a license for unspecified “customers” cannot be considered an essential term of the settlement agreement given that the settlement withheld from Nexen the Right to Sell; such an extension would be tantamount to creating a Right to Sell where none was offered. Therefore, a license for “customers” is not included in the settlement agreement.

[78] The inclusion of unidentified “customers” by Nexen in its draft proposal is, in my view, another illustration of Nexen reaching for more than it was offered. However, this does not demonstrate a lack of agreement on essential terms, but rather, one party pressing for a non-essential term to add, in its favour, to the settlement agreement.

[79] **Summary: the license clause includes: a license to Nexen and its respective “subsidiaries”, “parent companies”, “directors”, “officers”, “employees”, “successors”, “assigns”, and the Long Lake Oil Sands Project joint venture partnership. “Customers” and “Affiliates” are not included.**

(4) **The Release: the Parties Covered**

[80] The release aspect of the Betser-Zilevitch Offer referred only to “the defendants.” Betser-Zilevitch objected to Nexen’s draft release because it allegedly extended the release to virtually the same parties as Nexen’s proposed license, discussed above (no reference is made to officers by either party). Nexen’s March 14, 2017 draft contained a release of: “Nexen and its respective subsidiaries, parent companies, Affiliates, directors, employees, successors, assigns, joint venture

partners, and customers.” Betser-Zilevitch, in his April 7, 2017 correspondence and draft, agreed to release Nexen and its respective “subsidiaries, parent companies, Affiliates, directors, employees, and successors.” However, Betser-Zilevitch would not agree to the release of “assigns”, “joint venture partners”, and “customers”. Nexen, in its May 5, 2017 reply insisted these remain in the release.

[81] At issue is whether the release should extend to “assigns”, “joint venture partners”, and “customers”. Since they are not included in the settlement agreement, to include these would require implying a non-essential term into the settlement agreement evidenced by Betser-Zilevitch’s offer and Nexen’s acceptance.

[82] In my respectful view, the honest, sensible business person, when objectively considering the matter, would reasonably conclude that the parties had agreed to the release of “assigns” together with the Long Lake Oil Sands Project “joint venture partnership”, but that the parties had not agreed to the release of unspecified “customers” or unspecified “Affiliates”. I reach this result using the officious bystander approach as well. The Affiliates known at the time are the two Defendants; again, I see no need to add them under the definition of Affiliates in the release given they are already named parties to the settlement agreement. The addition of Affiliates was a non-essential term.

[83] Here, again, no objectively reasonable, sensible, or businesslike release drafted in the context of the settlement of litigation would continue to expose parties to the risk of continued litigation; to be a release in this context, the release must put an end to the litigation against those

exposed to it. If asked by the officious bystander, in terms of giving the settlement agreement business efficacy, I have no difficulty concluding that both parties would have agreed to a release as just described.

[84] **Summary: The release clause includes a release to Nexen and its respective subsidiaries, parent companies, directors, employees and successors, assigns and the Long Lake Oil Sands Project joint venture partnership. The release does not include unspecified Affiliates and does not include unspecified customers.**

(5) **The Release: Claims Asserted or “Assertable”**

[85] Betser-Zilevitch objected to Nexen’s draft release because it expanded the release to all claims “asserted or assertable” [emphasis added] under both patents, whereas Betser-Zilevitch’s offer of January 25, 2017 only released claims “asserted”. Nexen’s May 5, 2017 response rejected Betser-Zilevitch’s objection, and in its final draft release again referred to claims “asserted or assertable”. However, Nexen’s Court filings no longer ask that the release extend to “assertable” claims, only those that are “asserted.”

[86] In my view, the essential term of the settlement agreement in this respect is that the Defendants were to be released from all claims “asserted” in the litigation. There was no merit in Nexen’s now-abandoned argument that the release should also extend to “assertable” claims, potentially far broader as it is than simply claims “asserted.”

[87] Moreover, Betser-Zilevitch’s Offer only released “claims asserted”; it did not release “claims assertable” either alone or in conjunction. Nexen accepted the offer on this basis and concluded a binding settlement. Nexen made no reference to claims “assertable” in its letter of February 23, 2017. In seeking to extend the offer to add “claims assertable”, Nexen was attempting – once again - to get more than it already agreed to.

[88] I see no evidence of confusion or lack of certainty in Nexen continuing to press after January 25, 2017, just as it had on other aspects of the detailed settlement drafts, and indeed, just as Betser-Zilevitch had. I conclude that “claims assertable” is a non-essential term of the settlement agreement. In my view, no honest, sensible business person, when objectively considering the matter, would reasonably conclude that the parties had agreed to include in the release not only claims asserted but “claims assertable”. In response to the officious bystander, I conclude that both parties, if asked whether the settlement included not just “claims asserted” but the far larger “claims assertable”, the parties would, with one voice, have said ‘of course not.’

[89] **Summary: The release clause is limited to “claims asserted”, and it does not include “claims assertable”.**

(6) **The confidentiality clause:** [REDACTED]

[90] [REDACTED]
[REDACTED]
[REDACTED] Nexen, in its May 5, 2017 response

objected to this change. Betser-Zilevitch may still want this change, although it is not sought in his written filings. For the purposes of this analysis, his current position does not matter.

[91] In this connection, the settlement agreement proposed by Betser-Zilevitch on January 25, 2017, as accepted by Nexen on February 23, 2017, simply spoke of a “confidentiality agreement” “to keep the terms of the settlement confidential.”

[92] As with the case of attempting to exclude the U.S. patent, this appears to be another attempt by Betser-Zilevitch to gain more in the formal settlement documentation than Betser-Zilevitch proposed in the first place. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] It was non-essential. In my respectful view, no honest, sensible business person, when objectively considering the matter, would reasonably conclude that the parties had agreed to such a carve-out in the release. In response to the officious bystander, and as a matter of business efficacy, both parties, if asked whether the settlement included such a provision, again and with one voice, would have said ‘of course not.’

There is no basis on which I could imply this non-essential term into the settlement agreement.

[93] [REDACTED]

[REDACTED]

[REDACTED]

[94] I should add that Betser-Zilevitch raised other points with respect to certain aspects of the sale, assignment and transfer of the two underlying patents (Canadian and U.S.), which no longer appear to be in dispute. I would also add that the draft settlement agreement proposed by Nexen also contained many other provisions not objected to by Betser-Zilevitch.

VI. Conclusion

[95] In my view, the parties reached a binding settlement agreement in their exchange of letters dated January 25, 2017 and February 23, 2017. The binding nature of this agreement was affirmed in Betser-Zilevitch's letter to this Court – sent on consent of both parties - dated March 10, 2017, which said that a settlement had been achieved subject to formalization. The Defendants are entitled to a declaration to that effect.

[96] In these reasons, I have outlined the terms that should be implied to give business efficacy to the settlement agreement of January 25, 2017.

[97] The Defendants asked that the implied terms be set out in a draft order. However, the Federal Court of Appeal expressed concerns with adding implied terms into a draft order thereby elevating what would normally be contractual terms, into provisions of a Court order with attendant liability to civil contempt proceedings for non-compliance: *Allergan* at paras 93-97. Therefore, as the court did in *McCabe*, I have addressed what should be implied in my Reasons above.

VII. Costs

[98] The parties agreed that all-inclusive costs in the amount of \$5,000.00 should be awarded to the successful party on this motion, which I consider reasonable. Therefore, Betser-Zilevitch will be ordered to pay the Defendants' costs in the all-inclusive amount of \$5,000.00.

VIII. Confidential Reasons

[99] These Reasons as released to the parties and dated June 19, 2018, contained information subject to an Amended Protective and Confidentiality Order dated December 21, 2017, and were therefore marked Confidential. The Parties were given 20 days to consult with one another and advise the Court of any portions they wish redacted, failing which those reasons would be placed on the public file. By letter dated July 9, 2018, the parties agreed on redactions which have been made in these Reasons.

JUDGMENT in T-186-13

THIS COURT'S JUDGMENT is that

1. The Defendants' motion to enforce a settlement agreement is granted.
2. It is hereby declared that the parties hereto concluded a binding settlement agreement the terms of which are set out in Betser-Zilevitch's written offer to settle dated January 25, 2017 which is found as Exhibit A to the Affidavit of Michael S. Duchesneau.
3. This Action is deemed to be discontinued.
4. Betser-Zilevitch is ordered to pay the Defendants' costs in the all-inclusive amount of \$5,000.00.
5. The Parties shall have 20 days to consult with one another and advise the Court of any portions of this Confidential Order and Reasons they wish redacted, failing which these reasons will be placed on the public file.

“Henry S. Brown”

Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-186-13

STYLE OF CAUSE: MAOZ BETSER-ZILEVITCH v NEXEN INC AND CNOOC CANADA INC., EACH INDIVIDUALLY AND CARRYING ON BUSINESS AS A PARTNERSHIP REFERRED TO AS THE LONG LAKE OIL SANDS PROJECT

PLACE OF HEARING: TORONTO, ONTARIO

DATE OF HEARING: MAY 7, 2018

JUDGMENT AND REASONS: BROWN J.

DATED: JULY 13, 2018

APPEARANCES:

Mr. Andrew Moeser
Mr. Matthew Frontini

FOR THE PLAINTIFF

Mr. Steven Garland
Mr. Daniel S. Davies

FOR THE DEFENDANTS

SOLICITORS OF RECORD:

Gilbert's LLP
Toronto, Ontario

FOR THE PLAINTIFF

Smart & Biggar
Barristers and Solicitors
Ottawa, Ontario

FOR THE DEFENDANTS