Federal Court of Appeal | Cour d'appel fédérale

Date: 20170315

Dockets: A-90-16
A-121-16

Citation: 2017 FCA 49

Present: **GLEASON J.A.**

BETWEEN:

P.S. KNIGHT CO. LTD. and
GORDON KNIGHT

Appellants

and

CANADIAN STANDARDS ASSOCIATION

Respondent

Heard at Toronto, Ontario, on January 12, 2017.

Order delivered at Ottawa, Ontario, on March 15, 2017.

REASONS FOR ORDER BY: GLEASON J.A.

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REASONS FOR ORDER

GLEASON J.A.

[1] I have before me several interlocutory motions that I directed be argued orally due to the number of matters in issue and my concerns about some of the materials filed in connection with the motions. By the conclusion of the oral hearing, the parties had managed to settle several of the issues between them such that there are essentially only four matters remaining that I need to determine: first, whether certain paragraphs in the May 16, 2016 affidavit of Doug Morton

(the May 16, 2016 Morton affidavit), filed by the respondent on two of the motions, should be struck; second, whether the respondent should be permitted to file an additional affidavit of Doug Morton, containing information similar to some of the paragraphs which the appellants seek to strike in the May 16, 2016 Morton affidavit; third, whether the Federal Court's judgments in respect of monetary damages and costs should be stayed pending the disposition of the appellants' appeals; and, finally, whether the appellants should be granted leave to file additional voluminous materials in connection with the appeals.

[2] For the reasons that follow, I have determined that the requested stay should be partially granted, on the terms set out below, that certain paragraphs in the May 16, 2016 Morton affidavit should be struck, but that the respondent should be granted leave to file the additional affidavit and, finally, that the appellants' motion to file fresh evidence should be refused.

[3] Some background is necessary to put these matters into context. The appellants have filed two appeals, one from the judgment of the Federal Court granting the respondent's application for copyright infringement (*Canadian Standards Association v. P.S. Knight Co. Ltd. and Gordon Knight*, 2016 FC 294, 264 A.C.W.S. (3d) 750 [*P.S. Knight*]) and the other from the Federal Court's costs judgment, where it made a lump sum award in the respondent's favour in the amount of $96,336.00 (*Canadian Standards Association v. P.S. Knight Co. Ltd. and Gordon Knight*, 2016 FC 387, 265 A.C.W.S. (3d) 39).

[4] In *P.S. Knight*, the Federal Court found that the appellants had infringed copyright in the 2015 version of the *Canadian Electrical Code, Part I* (the 2015 CSA Code), awarded the

respondent $5,000.00 in statutory damages, enjoined the appellants and the officers, directors, employees and any related companies of the corporate appellant from any reproduction, distribution or sale of their version of the 2015 CSA Code (the Knight Code) and from any other act that contravenes the respondent's copyright in the 2015 CSA Code without the express written permission of the respondent. The Federal Court also ordered the appellants to deliver up to the respondent all copies of the Knight Code and any plates or electronic files of the Knight Code.

[5] In addition to the challenge to the Knight Code that was the subject of the application before the Federal Court, the respondent also commenced an action against the appellants, alleging that an earlier 2012 publication infringed copyright in an earlier version of the CSA Code. This action is pending before the Federal Court, and examinations for discovery have been conducted by the parties in the pending action.

[6] The following motions were filed in connection with the pursuit of the two appeals now before this Court:

- The appellants' April 19, 2016 motion to settle the contents of the Appeal Book, consolidate the two appeals and confirm a filing timeline for the appeal (the Consolidation Motion);

- The appellants' April 24, 2016 motion for a stay of the Federal Court's order in *P.S. Knight*, a stay of the Federal Court's costs order and leave to amend its Notice of Appeal (the Stay Motion);

- The respondent's May 16, 2016 cross-motion for enforcement of the Federal Court's orders for damages and delivery of any infringing copies of the Knight Code to the respondent and for costs or, in the alternative, for an order requiring the appellants to comply with the damages and costs orders, or, in the further alternative, for an order requiring the appellants to pay into Court the sum of $100,000.00 as security for costs (the Enforcement Cross-Motion);

- The appellants' May 26, 2016 motion to strike paragraphs from the May 16, 2016 Morton affidavit, filed as part of the respondent's May 16, 2017 cross-motion record (the Strike Motion);

- The appellants' June 30, 2016 motion to adduce fresh evidence (four volumes) in its appeal (the Fresh Evidence Motion); and

- The respondent's December 19, 2016 motion to adduce a supplemental affidavit from Doug Morton on its May 16, 2016 cross-motion (the Supplemental Evidence Motion).

The Consolidation Motion and Request to Amend the Notice of Appeal in A-90-16

[7] The parties confirmed at the hearing that they have consented to consolidate the appeals and appeal books in A-90-16 and A-121-16 and to comply with the filing timeline outlined in the Consolidation Motion. In addition, they have agreed that the contents of the consolidated appeal book should be as proposed in the respondent's April 29, 2016 responding record. I concur that the foregoing is appropriate, and an order will therefore issue to this effect.

[8] As part of its Stay Motion, the appellants moved to amend the notice of appeal in matter A-90-16. The respondent has consented to the amendments identified by the appellants in the motion record for its Stay Motion. Therefore, on consent of the parties, the appellants' motion to amend the notice of appeal in matter A-90-16 is granted.

The Strike Motion, Fresh Evidence Motion and Violation of the Implied Undertaking Rule

[9] In their Strike Motion, the appellants move to strike several paragraphs from the May 16, 2016 Morton affidavit. . The impugned paragraphs are: 12, 18, 20-25, 27-31, 33-34, 36-37, 42-47, 48-49, 50-51, 53-61, 63-101, 103-114, 116-119, 125-136, 139, 142, 146, 148, 150-153, 155-173, 176-177. The respondent consents to paragraphs 73-75, 90-92, 116 and 118 being struck from the affidavit. These paragraphs relate to settlement discussions and accordingly their inclusion in the materials was improper.

[10] The appellants argue that some of the remaining impugned paragraphs also improperly refer to settlement discussions and therefore are privileged and ought to be struck. In addition, the appellants submit that the impugned paragraphs in the May 16, 2016 Morton affidavit refer to evidence that was not before the Federal Court in the matters presently being appealed and are therefore irrelevant. They further say that some of the paragraphs contain opinion statements, conclusory statements or arguments and are therefore improper for this reason as well. The appellants make similar arguments regarding the supplemental affidavit from Doug Morton that the respondent seeks to file and submit the respondent's request for leave should it accordingly be denied.

[11] In my view, there are two types of evidence contained in the May 16, 2016 Morton affidavit that are improper: first, statements regarding settlement offers, positions taken during negotiations and regarding what transpired in earlier mediations between the parties that are subject to settlement privilege and, second, statements about evidence given by Gordon Knight during examinations for discovery in the separate action pending before the Federal Court and extracts from the transcript of his examination for discovery. As the respondent conceded during the hearing, inclusion of the latter type of evidence in the May 16, 2016 Morton affidavit violates the implied undertaking rule. The paragraphs that improperly contain privileged information are 71-76, 88-92, and 115-117 of the May 16, 2016 Morton affidavit. The portions of the May 16, 2016 Morton affidavit that violate the implied undertaking rule are paragraphs 36, 40-44, 101, 102, 129-131 and 163–167 as well as the last sentence of paragraph 51 and the words "by Gordon Knight's own admission" in paragraph 18.

[12] Settlement privilege extends to communications between parties made in an effort to resolve outstanding issues. Evidence of such communications cannot normally be filed without the consent of the other party to the settlement discussion: Alan W. Bryant, Sidney N. Lederman, Michelle K. Fuerst, *Sopinka, Lederman & Bryant: The Law of Evidence in Canada* (4th ed.) (Markham, Ont.: LexisNexis, 2014) at 1035-1038. While certain exceptions to this general prohibition exist (most notably where it is claimed that a settlement has been reached and evidence is required to establish its terms), no exception applies to the impugned statements in the May 16, 2016 Morton affidavit. Paragraphs 71-76, 88-92, and 115-117 of that affidavit must accordingly be struck as they contain information that is subject to settlement privilege.

[13] Turning to the implied undertaking rule, that rule prohibits a party from using otherwise unavailable evidence that it obtains through discovery in a civil proceeding for any purpose other than the proceeding in which the evidence was given unless the evidence is tendered before the court (in which event it becomes public), the party who gave the evidence consents to its use outside the proceeding or the court grants leave to use the evidence for another purpose. An implied undertaking is one that is given to the court (as it is under its process that the information is obtained through discovery).

[14] In *Eli Lilly and Co. v. Interpharm Inc.* (1993), 156 N.R. 234, 50 C.P.R. (3d) 208 (FCA) [*Eli Lilly*], this Court adopted the definition of the implied rule undertaking provided by the Federal Court in *Canada v. Ichi Canada Ltd.*, [1992] 1 F.C. 571 at 580, 49 F.T.R. 254:

> […] information obtained on discovery is to be used only for the purposes of the litigation for which it is obtained. This does not, of course, restrict the use of any information which subsequently is made part of the public record. Nor does it affect the use of information which while obtained on discovery may also have been obtained from some other source. An implied undertaking cannot operate to pull under its umbrella documents and information obtained from sources outside the discovery process merely because they were also obtained on discovery. In addition, the implied undertaking does not prevent a party from applying, in the context of collateral litigation, for release from the implied undertaking, so that information obtained on discovery might be used in that litigation.

[15] In *Juman v. Doucette*, 2008 SCC 8, [2008] 1 S.C.R. 157 [*Doucette*], the Supreme Court of Canada confirmed the existence and scope of the implied undertaking rule and noted that, unless an exception like one of the foregoing pertains, by virtue of the rule, "[…] evidence compelled during pre-trial discovery from a party to civil litigation can be used by the parties only for the purpose of the litigation in which it was obtained" (at para. 1). The Supreme Court explained two principles that underline the implied undertaking rule. First, the rule is designed to

provide a measure of protection to the privacy interests of those subject to discovery by requiring that disclosed information should "[stay] in the discovery room unless eventually revealed in the courtroom or disclosed by judicial order" (*Doucette* at para. 25). Second, the Court noted that the rule encourages litigants to provide more complete and candid discovery; knowing that the information cannot be used for unrelated purposes encourages candour (*Doucette* at para. 26).

[16] Even where the subject matter of two proceedings between the same or related parties is similar, and where evidence obtained during one might be relevant in the other, the implied undertaking rule still applies and operates to prevent the use of information obtained on discovery in one proceeding being filed in the other, unless the party who provided the information consents or the court allows the evidence to be filed in the second proceeding. In such cases, though, the prejudice to the party providing the information is generally less and, therefore, a court will typically look favorably on a request for leave to utilize the information obtained in one proceeding in the other proceeding as the Supreme Court noted at paragraph 35 in *Doucette*.

[17] Here, no such consent was given or court order made even though it appears that there were multiple violations of the implied undertaking rule committed at certain points by both parties. Thus, as was conceded by the respondent, inclusion of information obtained from Gordon Knight in the context of discoveries in the pending action before the Federal Court in the May 16, 2016 Morton affidavit was not proper. Therefore, paragraphs 36, 40-44, 101, 102, 129-131 and 163–167 as well as the last sentence of paragraph 51 and the words "by Gordon

Knight's own admission" in paragraph 18 of the May 16, 2016 affidavit of Gordon Knight will be struck.

[18] As concerns the rest of that affidavit that is impugned by the appellants and the subsequent affidavit from Doug Morton that the respondent seeks to file, the respondent has convinced me that the evidence contained in these paragraphs and supplemental affidavit is of some relevance to the Stay Motion and the Enforcement Cross-Motion. More specifically, much of this evidence speaks to the extent of litigation between the parties and is thus relevant to the appellants' claim that requiring compliance with the Federal Court's costs award would make it impossible for the appellants to pursue their appeals. Thus, the further paragraphs impugned in the May 16, 2016 Morton affidavit should not be struck and the respondent is granted leave to file the supplemental affidavit referred to in the Supplemental Evidence Motion.

The Enforcement Cross-Motion and the Stay Motion

[19] The Enforcement Cross-Motion and Stay motions are the converse of each other and thus may be considered together.

[20] During the hearing, the parties consented to a stay of the non-injunctive and non-monetary portions of the Federal Court's judgments provided that an order is issued that would require: the appellants to deliver up to the respondent their print and digital copies of the Knight Code and the respondent to remove and store them at its cost and to ensure they are safeguarded so they can be returned to the appellants if required pending the outcome of the appeal or in the event the appeal is successful. In the draft order the parties provided, the respondent was also

prepared to agree that it would be enjoined from viewing or copying the print and digital copies of the Knight Code pending the determination of this appeal. Therefore, the only issue remaining for me to determine with respect to the Stay Motion and the Enforcement Cross-Motion is whether the portion of Federal Court's judgment in *P.S. Knight* requiring payment of damages and its costs judgment should be stayed pending the outcome of the appeals.

[21] In order to succeed on this point, the appellants must establish the three elements required for a stay, namely, the appeals raise a serious issue, the appellants would suffer irreparable harm if the stay were refused, and, finally, the balance of convenience favours granting the stay: *RJR-MacDonald Inc. v. Canada (Attorney General)*, [1994] 1 S.C.R. 311 at 347-349, 111 D.L.R. (4th) 385 [*RJR-MacDonald*]; *Janssen Inc. v. AbbVie Corp.*, 2014 FCA 112 at paras. 12-17, 120 C.P.R. (4th) 385 [*Janssen*]; *Glooscap Heritage Society v. Minister of National Revenue*, 2012 FCA 255 at para. 4, 224 A.C.W.S. (3d) 469 [*Glooscap Heritage Society*]. To meet the first step of the test, they need only show that one of the issues raised on appeal is not frivolous or vexatious: *RJR-MacDonald* at 337-338; *Janssen* at para. 23; *Glooscap Heritage Society* at para. 25; *Canadian Waste Services Holdings Inc. v. Canada (Commissioner of Competition)*, 2004 FCA 273 at para. 9, 133 A.C.W.S. (3d) 173.

[22] While the respondent objected to the requested stay and took the position that the appellants should be required to comply with the monetary terms of the Federal Court's judgments pending the disposition of the appeals from them, it advanced an alternate position during the hearing. More specifically it submitted that if a stay were granted it should be subject to the following conditions:

- Until the disposition of the appeals, the corporate appellant should be limited to only making payments and transferring property within the course of its ordinary business, noting that the appellants can continue to make payments related to ongoing litigation;

- The corporate appellant should be required to refrain from altering the terms of existing contracts or accounts receivable in a manner that reduces its assets until the disposition of the appeals;

- The corporate appellant should also be required to keep full account of its revenues and profits and provide statements of same monthly to the respondent for the period January 2017 to the disposal of the appeal; and

- Any deadlines established as agreed to by the parties in the Consolidation Motion for filing appeal materials should be final and binding (unless altered by the Court).

[23] The appellants indicated during the hearing that they were prepared to consent to the foregoing conditions. Thus, it is appropriate that any stay order incorporate these conditions, other than the final one, which is already implicit in the order in respect of the Consolidation Motion.

[24] Turning to the merits of the stay request, the respondent concedes that the appeals raise a serious issue. Having reviewed the notices of appeal, I concur that this is so.

[25] Insofar as concerns irreparable harm, I am satisfied that the evidence before me, while not as detailed as it could have been, does establish that the financial resources of the appellants

are limited and therefore that it is likely that the appellants would not be able to pursue their appeals if they were required to comply with the monetary portions of the Federal Court's judgments. Indeed, counsel for the respondent indicated during argument that the motivation for the respondent's enforcement request was a desire to foreclose the appellants' pursuit of these appeals.

[26] Contrary to what the respondents claim, I do not believe that the conduct of the appellants is such that they caused their own impecuniosity. Rather, much of the monies they have spent in litigation have been spent defending actions brought by the respondents. Moreover, their conduct in pursuit of these appeals is not so objectionable as to disentitle them to the requested relief.

[27] The loss of the ability to pursue an appeal due to financial constraints constitutes irreparable harm sufficient to ground a stay of a monetary judgment: *Air Canada v. Thibodeau*, 2011 FCA 343 at paras. 37-39, 425 N.R. 297; *Halford v. Seed Hawk Inc.*, 2006 FCA 167 at paras. 10-12, 351 N.R. 77. In such circumstances, the balance of convenience also favours granting the stay given it is in the interests of justice for the matter to proceed on the merits: *Monit International Inc. v. R.*, 2004 FCA 108 at para. 7, 132 A.C.W.S. (3d) 7; see e.g. *Couchiching First Nation v. Canada (Attorney General)*, 2011 CanLII 29658 (FC).

[28] Accordingly, as the appellants have established that without the requested stay they are unlikely to be able to afford to pursue these appeals, it is appropriate to issue a stay subject to the terms outlined above.

The Fresh Evidence Motion

[29] I turn now to the final issue, namely, whether the appellants should be entitled to file a substantial volume of additional evidence in their appeal from *P.S. Knight* in A-90-16.

[30] To succeed in their Fresh Evidence Motion, the appellants must demonstrate under Rule 351 of the *Federal Courts Rules*, SOR/98-106 that the evidence could not have been discovered earlier through reasonable diligence, is practically conclusive of an issue on appeal, and is credible, or, in the alternative, that it is in the interest of justice for such new evidence to be adduced: *Gap Adventures Inc. v. Gap, Inc.*, 2012 FCA 101 at para. 7, 433 N.R. 267; *Korki v. Canada*, 2011 FCA 287 at para. 12, [2012] 2 C.T.C. 22; *Canada v. Canada (Canadian Council for Refugees)*, 2008 FCA 171 at para. 8, 167 A.C.W.S. (3d) 439; *Assessor for Seabird Island Indian Band v. BC Tel*, 2002 FCA 288 at paras. 28-30, 216 D.L.R. (4th) 70.

[31] Here, the evidence the appellants wish to add to the record was in the files of the appellant company that were located in the basement office of the house occupied by Gordon Knight's father. The materials in question had been in the basement for several years. It is undisputed that Gordon Knight had access to the basement. He claims to have searched through his father's files to compile the appellants' evidence in the application and action before the Federal Court. He did not locate the materials that he now wishes to add to the appeal file because the documents were disorganized and some of them were misfiled. He was unable to speak to his father about them because, by the time the litigation had commenced, his father was incapacitated by dementia.

[32] I am not satisfied that the appellants could not have located these additional materials if a diligent search had been made. The cross-examination of Mr. Knight establishes that his father's basement was not huge and that the number of documents was not too much for him to have reviewed, one-by one, in a reasonable time frame. I note, moreover, that his disclosure obligations in connection with the Federal Court action required him to conduct a diligent search for all relevant documents. I therefore believe that he ought to have conducted a more careful search of the corporate files than he undertook. Had he done so, he would have discovered the four volumes of materials that the appellants now wish to add to the record before this Court. It thus cannot be concluded that these materials could not have been found earlier through reasonable diligence.

[33] I further question what the documents show and do not believe that they are as conclusive as the appellants contend. Many are notes or memos of meetings and correspondence. Without a witness to put them in context, I cannot conclude that the documents are conclusive of the fact that the appellants claim they establish, namely, that CSA does not possess copyright in the 2015 CSA Code. The documents therefore cannot be said to be virtually dispositive of one of the issues on appeal.

[34] Finally, in the circumstances, the interests of justice do not require that the Fresh Evidence motion be granted as the documents in question are of limited – if any – relevance, of doubtful admissibility and ought to have been located earlier and put before the Federal Court for consideration. The appellants' motion to adduce fresh evidence will accordingly be dismissed.

[35] As success in these various motions was divided and as many of the issues between the parties appear to have arisen due to unduly argumentative positions taken by them or their counsel, there will be no order as to costs in any of these matters.

"Mary J.L. Gleason"
J.A.

FEDERAL COURT OF APPEAL

NAMES OF COUNSEL AND SOLICITORS OF RECORD

DOCKETS:	A-90-16, A-121-16
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