

Federal Court of Appeal



Cour d'appel fédérale

Date: 20251020

Docket: A-309-23

Citation: 2025 FCA 187

**CORAM: STRATAS J.A.
MONAGHAN J.A.
WALKER J.A.**

BETWEEN:

NCS MULTISTAGE INC.

Appellant

and

**KOBOLD CORPORATION, KOBOLD
COMPLETIONS INC., 2039974 ALBERTA
LTD. and PROMAC INDUSTRIES LTD.**

Respondents

Heard at Toronto, Ontario, on April 3, 2025.

Judgment delivered at Ottawa, Ontario, on October 20, 2025.

REASONS FOR JUDGMENT BY:

WALKER J.A.

CONCURRED IN BY:

**STRATAS J.A.
MONAGHAN J.A.**

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REASONS FOR JUDGMENT

WALKER J.A.

I. Background

[1] The appellant, NCS Multistage Inc. (NCS), and the respondents, Kobold Corporation, Kobold Completions Inc. and 2039974 Alberta Ltd. (collectively “Kobold”), are fierce

competitors in the oilfields services industry. They both provide specialized downhole (down-well) equipment used in hydraulic fracturing (fracking), a method of extracting oil and gas from underground hydrocarbon formations by pumping large amounts of pressurized fluid into a well.

[2] The respondent, Promac Industries Ltd. (Promac), machines components for subsurface equipment used in the oil and gas industry, including sliding sleeves and components for tools. Importantly for this appeal, Promac manufactured sleeves and tools for Kobold.

[3] In two actions heard together by the Federal Court, NCS claimed that Kobold and Promac had infringed five NCS patents (Canadian Patent Nos. 2,693,676; 2,820,652; 2,738,907 (907 Patent); 2,766,026 (026 Patent); and 2,820,704) (collectively, the NCS Patents). Kobold and Promac denied infringement and alleged in response that the NCS Patents were invalid. By way of counterclaim, Kobold asserted that NCS had infringed certain claims of its Canadian Patent Nos. 2,856,830 (830 Patent or 830) and 3,027,571 (571 Patent or 571), later abandoning its claim for infringement of the 830. In response to the counterclaim, NCS denied infringement and argued that the asserted claims of the 571 were invalid.

[4] Kobold and Promac were successful at trial. In a necessarily lengthy decision (2023 FC 1486, *per* Justice McVeigh) (FC Decision), the Federal Court dismissed NCS's actions against Kobold and Promac and declared certain claims of the NCS Patents invalid. The Federal Court also allowed the counterclaim. Specifically, the Court declared claims 6, 11, 12 and 16 (the Asserted Claims) of the 571 Patent valid, concluded that NCS's LP3 sleeves—sliding sleeves used in fracturing operations—infringed the Asserted Claims, and granted a permanent

injunction restraining NCS from infringing the 571 Patent. Finally, after receiving submissions from the parties, the Federal Court awarded lump sum costs to Kobold and Promac in the amount of \$1,800,000, plus disbursements.

[5] These reasons address NCS's appeal of the FC Decision. I note that the scope of this appeal changed significantly after NCS abandoned the majority of its appeal very late in the process. Initially, NCS appealed: (i) the Federal Court's findings of invalidity in relation to two of its five patents (the 026 and 907 Patents) and of validity and infringement by NCS of Kobold's 571 Patent; and (ii) the costs award. On March 21, 2025, NCS abandoned its appeal in relation to the 026 and 907 Patents to focus on the 571 Patent and the costs award. NCS further narrowed its appeal on March 31, 2025, three days before the hearing in this Court. NCS now maintains only its allegations that the Federal Court (a) misconstrued the Asserted Claims of the 571 Patent; and (b) as a result, erred in its conclusions regarding obviousness double patenting in view of the 830 Patent and, therefore, in its conclusions regarding the validity of the Asserted Claims and their infringement. NCS also maintains its appeal of the Federal Court's costs award.

[6] I have concluded that NCS's appeal should be allowed. I find that the Federal Court erred in construing the Asserted Claims of the 571 Patent and that the Federal Court's conclusion that the Asserted Claims are not invalid for obviousness double patenting of claim 17 of the 830 Patent must be set aside and remitted to the Federal Court for re-determination in accordance with these reasons. I also find that the Federal Court erred in awarding costs in the lump sum amount of \$1,800,000 to Kobold and Promac.

[7] I pause here to note that the trial judge presided over an immensely complicated trial that spanned six, originally seven, patents and 128 claims, during which she marshalled an enormous volume of factual and expert evidence. This Court and the parties have had the benefit of her painstaking analysis, leaving NCS only a very narrow band of appeal. The vast majority of the trial judge's analysis and conclusions are not contested.

II. The Kobold 571 Patent

[8] Certain hydrocarbon formations have low permeability and require stimulation to extract oil and gas. Fracking, one such extraction method, involves the injection of fluids at high pressure into a well that is lined with a housing or casing that contains holes or "ports". The ports allow pressurized fluid to exit the housing into the hydrocarbon formation and, inversely, the hydrocarbons to migrate into the housing for extraction. Ports in the housing can be temporarily covered by a sliding sleeve that sits and moves laterally inside the housing and, when the ports are needed, uncovered by sliding the sleeve to an open position.

[9] Kobold's 571 Patent is titled "Downhole Tool Having a Shock-Absorbing Sleeve" and describes a shock-absorbing system for a sliding sleeve that uses viscous dampening (pressurized fluid in the space between the housing and sleeve, called the "annular space") to control the speed of the sleeve. The 571 is a voluntary divisional patent of the 830 Patent, which itself claims an apparatus for a downhole tool with a shock absorbing sleeve.

[10] The primary inventor of the 571 explained at trial that the purpose of the patent was to create a mechanism to make the shifting event (the opening of the ports) less violent, thereby reducing damage to the downhole tools and sleeves (FC Decision at para. 1537):

The shifting process is violent, as it involves the application of a tremendous force to the shifting tool in a matter of milliseconds. Shifting is violent because the sleeves are locked in a closed position with shear pins and that is why a great force is required to open the sleeve for the first time.

[11] NCS and Kobold agree that the 571 Patent encompasses two embodiments: a gap embodiment and a seal embodiment. The key issue in this appeal is whether the Asserted Claims encompass only the gap embodiment, as found by the Federal Court, or both the gap and seal embodiments.

III. Issues and Standard of Review

[12] The issues raised by NCS in this appeal are:

- A. Whether the Federal Court erred in construing the Asserted Claims;
- B. Whether the Federal Court erred in concluding that the Asserted Claims are not invalid for obviousness double patenting in view of claim 17 of the 830 Patent;
and
- C. Whether the Federal Court erred in awarding lump sum costs in the amount of \$1,800,000 to Kobold and Promac.

[13] The usual appellate standard of review applies in patent appeals: *Nova Chemicals Corporation v. Dow Chemical Company*, 2016 FCA 216 at para. 13 (*Nova*), leave to appeal to SCC refused, 37274 (April 20, 2017); *Tearlab Corporation v. I-MED Pharma Inc.*, 2019 FCA 179 at para. 27 (*Tearlab*). Questions of fact and questions of mixed fact and law, from which a legal error cannot be extricated, are reviewable against the standard of palpable and overriding error, and questions of law are reviewed for correctness: *Housen v. Nikolaisen*, 2002 SCC 33.

[14] Claim construction is a question of law and subject to the correctness standard: *Whirlpool Corp. v. Camco Inc.*, 2000 SCC 67 at para. 61 (*Whirlpool*); *Nova* at para. 15; *Tearlab* at para. 28. However, “the appreciation of expert evidence as to how a skilled person would construe the claims, and what common general knowledge was available to such a skilled person at the date of publication, is a question of fact reviewable on a palpable and overriding error standard”: *Tearlab* at para. 29; see also *Google LLC v. Sonos Inc.*, 2024 FCA 44 at para. 6 (*Google LLC*); *Biogen Canada Inc. v. Pharmascience Inc.*, 2022 FCA 143 at para. 38, citing *ABB Technology AG v. Hyundai Heavy Industries Co., Ltd.*, 2015 FCA 181 at paras. 22–23. The parties do not agree on how this distinction applies in this appeal.

IV. The Asserted Claims of the 571 Patent

[15] The Federal Court prefaced its construction of the Asserted Claims by noting Kobold’s acknowledgment that the 571 Patent covers two distinct embodiments: one where the annular space between the sleeve and the housing is sealed, and one where it is not. The Court noted that

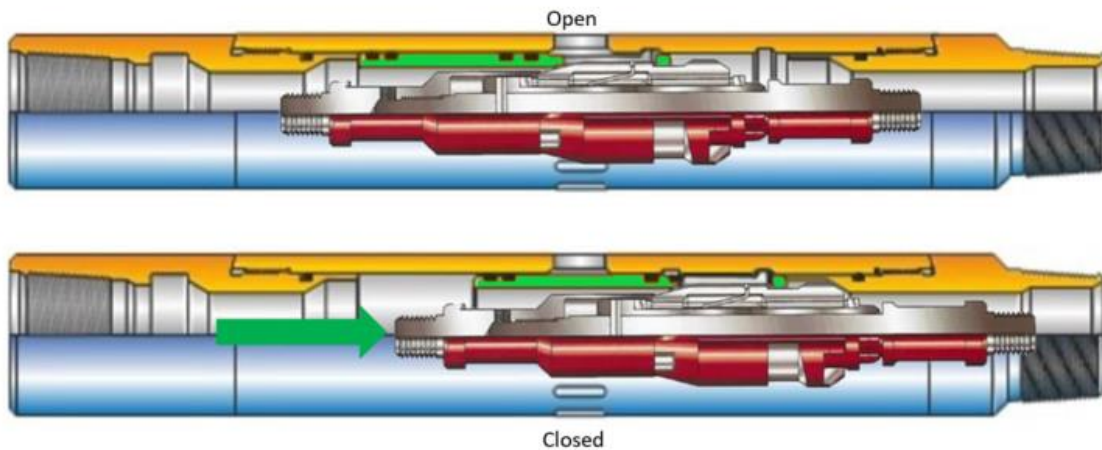
Kobold had asserted in its counterclaim that NCS has infringed only those embodiments without a seal (having omitted claim 13 of the 571 Patent from the Asserted Claims).

[16] The Federal Court construed the essential elements of the Asserted Claims (claims 6, 11, 12 and 16 (as they depend from claims 1, 3 and 4)) and claim 13 of the 571 Patent, as follows (FC Decision at para. 1022):

Claim	Dependent on Claim	Essential Elements
1	N/A	a. A downhole apparatus comprising: i. A tubular housing along a tubing string; ii. A sleeve located within the housing and axially moveable therein from a first position to a second position; iii. A first annular chamber radially intermediate the housing and the sleeve; iv. Said first annular chamber containing a first dampening fluid and being [capable] of controllably releasing the first dampening fluid under pressure; 1. When the sleeve moves from the first position to the second position, the first dampening fluid is pressurized and controllably released for controlling the speed of the sleeve movement.
3	1 or 2	a. The first dampened fluid is grease.
4	1-3	a. The first dampened fluid has a viscosity index in the range between 80 and 110.
6	1-5	a. A second annular chamber radially intermediate the housing and the sleeve, and axially immediately adjacent the first annular chamber; and, b. The second annular chamber is in fluid communication with the first chamber for receiving the first dampening fluid released from the first chamber.
11	6-10	a. The first and second chambers are formed from an [annular] space radially intermediate the housing and the sleeve; and, b. An annular barrier divides the annular space into the first and second chambers.

12	11	a. The annular space is located at a fixed location with respect to the housing; b. The annular barrier is fixed to the sleeve and moveable therewith; and, c. The movement of the annular barrier simultaneously reducing the volume of the first chamber and enlarging the volume of the second chamber.
13	12	a. Said barrier comprises a seal arrangement for sealing between the sleeve and the housing.
16	11 to 15	a. The apparatus further comprises at least one metering passage fluidly connecting the first and second chambers across the barrier.

[17] In summary, claim 1 is the independent claim and claims a broad downhole apparatus. Claim 1 consists of a first annular chamber located between the outer surface of the sleeve and the inner surface of the housing that contains a fluid that can be controllably released under pressure. Claim 6 includes a second annular chamber adjacent to the first. The first and second chambers are in fluid communication, meaning there is a pathway between them that allows the dampening fluid to pass between the chambers. Claim 11 adds the requirement of an annular barrier (garter ring) to divide the annular space (the space between the housing and the sleeve) into the two annular chambers and claim 12 addresses the placement of the annular barrier, specifying that it is fixed to the sleeve. The annular barrier moves with the sleeve, such movement reducing the volume of the first chamber and enlarging the volume of the second chamber, as shown in the figures below (FC Decision, Appendix A, p. 477):



[18] Finally, claim 16 states that the apparatus consists of at least one metering passage (for example, a small hole) that fluidly connects the first and second annular chambers and permits dampening fluid to pass between the two chambers across the annular barrier.

[19] It is the annular barrier and metering passage that create the 571 Patent's shock-absorbing and dampening effects on the sliding sleeve by limiting the flow of dampening fluid between the first and second annular chambers.

[20] Claim 13 of the 571 Patent (the seal embodiment) is not an Asserted Claim but is nonetheless critical to an understanding of the issues in this appeal. Claim 13 reads:

The apparatus of claim 12 wherein said barrier comprises a seal arrangement for sealing between the sleeve and the housing.

[21] The parties do not dispute the Federal Court's weighing of the detailed expert evidence presented at trial or its description of the essential elements of the 571 Patent.

V. Analysis

A. *Whether the Federal Court erred in construing the Asserted Claims*

[22] The outcome of this appeal turns on NCS's argument that the Federal Court committed an error of law in concluding that the Asserted Claims, namely claims 6, 11, 12 and 16, only encompass the gap embodiment and not the seal embodiment of the 571 Patent. NCS submits that the Federal Court's error derives from a fundamental misunderstanding of the relationship between independent claims and dependent claims of a patent. NCS's second argument flows from its first: NCS argues that the Federal Court's claims construction error caused it to err in concluding that the Asserted Claims of the 571 Patent are not invalid due to obviousness double patenting.

[23] NCS emphasizes that, by definition, an independent claim is broader than a claim that depends from it. Claim 12 (an Asserted Claim), from which claim 13 depends, must therefore include the gap and seal embodiments regardless of the fact that Kobold did not assert claim 13 in its counterclaim. Further, when claim 16 depends from claim 12, it too must encompass both embodiments.

[24] NCS submits that the Federal Court's errors in construing the Asserted Claims are legal errors regarding the roles of independent and dependent claims of a patent and must be reviewed for correctness; they are not errors in the assessment of the expert evidence or the essential elements of the Asserted Claims reviewable for palpable and overriding error.

[25] In response, Kobold submits that NCS's appeal submissions misread the analysis in the FC Decision and fail to interpret the reasons in light of the arguments and evidence before the Federal Court. Kobold states that the Federal Court's construction of claim 12 responds to NCS's specific arguments at trial and should not be read in a legal vacuum.

[26] Kobold also submits that the Federal Court construed the Asserted Claims based on its appreciation of expert evidence and that its construction of the Asserted Claims is subject to review for palpable and overriding error: *Eli Lilly Canada Inc. v. Apotex Inc.*, 2024 FCA 72 at paras. 35-37. Kobold argues that the Court cannot separate the Federal Court's construction of the Asserted Claims from the evidence at trial and characterizes NCS's argument as a lawyer's construction that ignores the Federal Court's factually suffused findings.

[27] It is clear that the Federal Court relied on expert evidence and opinions to understand the terms used in the Asserted Claims and in construing the essential elements of the Asserted Claims. It is equally clear that the Federal Court's weighing of this evidence involves questions of mixed of fact and law: *Google LLC* at para. 6. However, the relationship between dependent and independent claims and the Federal Court's conclusions regarding the effect of claim dependencies on claims construction are questions of law and reviewable for correctness. The role of the expert is to provide evidence to the trial judge on the technical meaning of terms and concepts used in patent claims and on how the skilled person would understand those terms and concepts: *Whirlpool* at para. 57; *Free World Trust v. Électro Santé Inc.*, 2000 SCC 66 at para. 51.

[28] A useful starting point to frame the contentious paragraphs of the Federal Court's claims construction is the parties' agreement on appeal on the scope of claim 12. In its memorandum of fact and law on appeal, Kobold states:

82. **Claims 6, 11 and 12:** The parties are in agreement that the scope of claims 6, 11 and 12 of the 571 Patent include embodiments where there is a "sealed annular barrier" and embodiments where there is an "annular gap". Neither expert [for each party] opined that claims 6, 11 and 12 excluded embodiments with a "sealed annular barrier".

[29] Notwithstanding this apparent agreement and Kobold's statement in paragraph 37 of its appeal memorandum that there was no dispute between the parties as to whether claims 6, 11 and 12 include embodiments with a sealed annular barrier, the Federal Court construed claim 12 as follows:

[1039] Claim 12 depends on any one of Claims 6 to 10 and specifies that the annular space is located at a fixed location with respect to the housing, and the annular barrier is fixed to the sleeve. The annular barrier is moveable, thereby reducing the volume of the first chamber and enlarging the volume of the second chamber.

[1040] However, as Dr. Mennem [expert for NCS] points out, there are several possible embodiments for Claim 12. The annular barrier can be sealably moveable or include at least one metering passage.

[1041] NCS argues that because Claim 13 is dependent on Claim 12, the annular barrier of Claim 12 includes the annular barrier seal, as well as a barrier ring with a gap.

[1042] Claim 12 does not include the annular barrier seal and NCS's interpretation is a violation of claim differentiation. If Claim 12 contained an annular barrier seal, Claim 13 would be redundant. Given the presumption against redundancy has not been rebutted here, the limitation in Claim 13 cannot be read into Claim 12.

[Emphasis added]

[30] Kobold explains the Federal Court's findings in paragraph 1042 as a response to the argument made by NCS that the sealed annular barrier from claim 13 should be read into claim 12 as a limitation excluding gap embodiments. Kobold argues that the Federal Court's construction of claim 12 reflects the principle that the limitation of claim 13 should not be read into claim 12, thereby limiting claim 12 to the seal embodiment and rendering claim 13 redundant. Kobold urges the Court to largely ignore paragraph 1041 and to focus our attention on the Federal Court's finding in paragraph 1042. Kobold submits that paragraphs 1040 and 1042 of the FC Decision demonstrate the Federal Court's acceptance that the annular barrier can be sealably moveable or allow an annular gap.

[31] I do not agree with Kobold's recasting of the paragraphs set out above and find that the Federal Court erred in law in concluding that claim 12 does not include the annular barrier seal introduced in claim 13. Claim 12, from which claim 13 depends, must necessarily encompass the seal embodiment of claim 13. Claim 12 is simply not limited to the seal embodiment, while claim 13 is so limited.

[32] The Federal Court's conclusion in paragraph 1042 of the FC Decision is unequivocal. The Federal Court explicitly rejects NCS's argument that "the annular barrier of claim 12 includes the annular barrier seal, as well as a barrier ring with a gap," which is the correct construction of claim 12. There is no suggestion in paragraph 1042 or in the adjacent paragraphs that it is a response to a different argument made at trial. Read logically, paragraph 1042 responds to the argument set out in paragraph 1041 and I see no reason to accept Kobold's invitation to ignore paragraph 1041.

[33] An independent claim in a patent is broader and includes the subject matter of the claims that depend on it: *Halford v. Seed Hawk Inc.*, 2004 FC 88 at para. 90, *aff'd* 2006 FCA 275; see also *Patent Rules*, SOR/2019-251, s. 63. Accordingly, the independent claim encompasses embodiments with and without any limitations introduced by a dependent claim.

[34] Subsection 63(4) of the *Patent Rules* provides that “[a] dependent claim is considered to include all the limitations contained in the claim to which it refers...”. If claim 12 is limited such that it only includes the gap embodiment, claim 13 cannot be the “apparatus of claim 12” (the words of claim 13 in the 571 Patent) and, at the same time, be solely the seal embodiment. Claim 12 must encompass both embodiments. This construction of claims 12 and 13 is consistent with the guidance of this Court in *Camso Inc. v. Soucy International Inc.*, 2019 FC 255 (*Camso FC*), *aff'd* 2020 FCA 183.

[35] The Federal Court’s error in construing claim 12 lies in part in its misapplication of the principle of claim differentiation.

[36] The principle of claim differentiation creates a rebuttable presumption that limitations of a dependent claim should not be read into the independent claim and functions as a guard against redundancy in the claims of a patent. In *Camso FC* (at para. 103), Justice Locke stated:

It follows from this that a dependent claim, which incorporates all of the elements of the independent claim on which it depends, will generally be construed more narrowly than the independent claim: *Halford v Seed Hawk Inc*, 2004 FC 88 at para 90 [*Halford*], *aff'd* 2006 FCA 275. The limitations of the dependent claim are generally not read into the independent claim: *Halford* at para 93. Moreover, the independent claim should not be construed in a

manner that is inconsistent with the dependent claim: *Halford* at paras 91, 95.

[37] The Federal Court summarized the principle, stating, “it is impermissible to import limitations from dependent claims into the prior claims on which they depend”, citing *CanMar Foods Ltd. v. TA Foods Ltd.*, 2021 FCA 7 at paras. 44-45. I agree. However, Justice Locke’s guidance in *Camso* against reading limitations of a dependent claim into the independent claim means that the limitations of the dependent claim are not read as limitations of the independent claim: there is “a rebuttable presumption that the limitation added in [the dependent] claim is not an implicit element” of the independent claim: *Camso FC* at para. 181. The Federal Court misinterpreted the guidance to find that the limitation of claim 13 (the seal embodiment) must be excluded from claim 12. In so doing, the Federal Court erred in law.

[38] I find that claim 12 encompasses two embodiments of the annular barrier, one that has a gap and one that is sealed. In other words, claim 12 encompasses, but is not limited to, the seal embodiment contemplated by claim 13. This construction of claim 12 introduces no redundancy. Claim 13 encompasses the apparatus of claim 12 from which it depends but is limited to an embodiment that regulates the fluid communication of viscous fluid in the annular chamber using an annular barrier seal.

[39] I turn now to claim 16. Kobold submits that NCS has identified no error in the Federal Court’s construction of claim 16 as covering two separate and mutually exclusive dampening sleeves, one when claim 16 depends from claim 12 and one when it depends from claim 13.

[40] In oral argument, Kobold acknowledged that claim 12 includes both sealed and unsealed embodiments. Claim 13 is then limited to the seal embodiment and, when claim 16 is considered, Kobold asserted that there is a “dealer’s choice”: where claim 16 depends from claims 12 and 11, claim 13 can be “hopped” and claim 16 can be construed as excluding the seal embodiment.

[41] The Federal Court construed claim 16 as it depends from claims 1, 3, 4, 6, 11 and 12 of the 571 Patent as follows:

[1044] Since Kobold only alleges that those embodiments without a seal are infringed, the Court only needs to construct Claim 16 as it depends from Claims 1, 3, 4, 6, 11, and 12. Claim 13 adds the seal apparatus and that embodiment is not at issue.

[1045] Claim 16 explains that the apparatus consists of at least one metering passage that fluidly connects the first and second chambers across the barrier. As previously concluded, Claim 16 does not specify the geometry nor the size of the metering passage, however the skilled person would understand that Claim 16 requires a controlled passage of fluid, for example through a small orifice.

[1046] Only for purposes of this action, I construe Claim 16 as a metering passage which fluidly connects the first and second chambers across the barrier, with no specificity of the geometry nor the size of the passage, and excluding previous claims regarding a seal.

[Emphasis added]

[42] I find that the Federal Court’s erred in law in construing claim 16 as a result of its error in construing claim 12. Claim 16, when it depends from claim 12, necessarily encompasses the seal embodiment.

[43] Kobold acknowledges that when claim 16 depends from claim 13, claim 16 comprises the seal embodiment. Claim 13 depends only from claim 12 and I have found that claim 12, the broader claim, encompasses the gap and seal embodiments. So too must claim 16 when it depends from claim 12. As the dependent claim, claim 16 includes all the features and limitations (including all essential elements) of claim 12: *Camso* at para. 103; see also *Eli Lilly Canada Inc. v. Mylan Pharmaceuticals ULC*, 2015 FC 178 at para. 105, *aff'd* 2015 FCA 286.

[44] The Federal Court made the same claim differentiation error in describing claim 6 in its analysis of obviousness as a ground of invalidity of the 571 Patent:

[1585] However, not all of the Asserted Claims cover an embodiment with a barrier ring and a gap. The barrier is first introduced in Claim 11 and is therefore not included in Claim 6 – to otherwise include it would be a claim differentiation violation. Claim 11 includes the barrier ring with a gap. Claim 12 does cover an embodiment with a barrier ring that is unsealed. Claim 16 can be read as either including a seal or no seal.

[45] At the risk of repetition, claim 12 depends from claim 11 and encompasses embodiments of the apparatus with a barrier ring that can be sealed or unsealed. By definition, claim 11 is broader than claim 12 and encompasses the barrier ring, gap embodiment and seal embodiment. In turn, claim 11 depends from claims 6-10. Claim 6, again the broader claim, must encompass an apparatus with a barrier ring and the gap and seal embodiments. The Federal Court's contrary conclusion is an error of law.

[46] It follows that I would allow NCS's appeal of the Federal Court's construction of the Asserted Claims.

[47] The Federal Court's analysis of the relationship between independent claims and dependent claims of a patent and the principle of claim differentiation raises questions of law. Those questions are not factually infused. The Court need not delve into the evidence presented at trial in order to correctly construe claims 6, 11, 12 and 16 (as they depend from claims 1, 3 and 4) of the 571 Patent. Since this Court has before it a legal issue, it is for this Court to resolve. I see no reason to remit the issue to the Federal Court.

[48] As detailed above, I find that the Federal Court erred in law in construing claims 6, 12 and 16 of the 571 Patent. Correctly construed, claim 12 encompasses the gap embodiment and the seal embodiment of the apparatus of the 571 Patent. Claim 16, as it depends from claim 12, also includes the gap embodiment and the seal embodiment. Finally, claim 6 includes an annular barrier ring and encompasses both the gap and the seal embodiments of the apparatus.

B. *Double Patenting*

[49] NCS argued unsuccessfully at trial that the Asserted Claims of the 571 Patent are invalid due to obviousness double patenting based on Kobold's 830 Patent. On appeal, NCS submits that the Federal Court's errors in construing the Asserted Claims led directly to its rejection of NCS's double patenting argument.

[50] NCS focusses on claim 16 as the narrowest of the Asserted Claims. Claim 16, when it depends from claim 12, encompasses the gap embodiment and the seal embodiment of the apparatus of the 571 Patent. Relying on the Federal Court's determination that claim 17 of the

830 Patent and claim 13 of the 571 Patent both claim the seal embodiment and share “the same inventive concept”, NCS argues that, once the Federal Court’s claims construction errors are corrected, the Asserted Claims must be declared invalid for double patenting.

[51] The prohibition against double patenting rests on the premise that an inventor is entitled to only one patent for each invention: *Whirlpool* at para. 63; *Apotex v. Sanofi-Synthelabo*, 2008 SCC at para. 95. This prohibition is implicit in subsection 36(1) of the *Patent Act*, R.S.C. 1985, c. P-4:

Patent for one invention only

36. (1) A patent shall be granted for one invention only but in an action or other proceeding a patent shall not be deemed to be invalid by reason only that it has been granted for more than one invention.

Brevet pour une seule invention

36. (1) Un brevet ne peut être accordé que pour une seule invention, mais dans une instance ou autre procédure, un brevet ne peut être tenu pour invalide du seul fait qu’il a été accordé pour plus d’une invention

[52] The Supreme Court of Canada explained the rationale for the rule against double patenting in *Whirlpool* (at para. 63):

The prohibition against double patenting relates back to the “evergreen” problem mentioned at the outset. The inventor is only entitled to “a” patent for each invention: *Patent Act*, s. 36(1). If a subsequent patent issues with identical claims, there is an improper extension of the monopoly. It is clear that the prohibition against double patenting involves a comparison of the claims rather than the disclosure, because it is the claims that define the monopoly. The question is how “identical” the claims must be in the subsequent patent to justify invalidation.

[53] A patent may be invalid for double patenting if the inventor has received a prior patent for the same invention (same invention double patenting) or for an invention that is not

patentably distinct from the second (obviousness double patenting): *Whirlpool* at para. 66; *Eli Lilly Canada Inc. v. Mylan Pharmaceuticals ULC*, 2016 FCA 119 at para. 27 (*Mylan FCA*). The test for obviousness double patenting is more flexible than that for same invention double patenting and asks whether the second patent claims a second invention that is different from that claimed in the first patent. The test was recently set out by this Court in *Hospira Healthcare Corporation v. Kennedy Trust for Rheumatology Research*, 2020 FCA 30 (*Hospira*):

[99] ... The question is not whether the scope of the claims of the two patents overlap so that they cover the same embodiments. Rather, the issue is whether there is a patentable distinction between the two patents such that the claims of the 630 Patent [the second patent] are not obvious in view of the claims of the 647 Patent [the first or parent patent]. In summary, the 630 Patent concerns a different invention from that claimed in the 647 Patent.

[54] NCS and Kobold agree that the Federal Court correctly identified the test for obviousness double patenting, consistent with the formulation in *Hospira*:

[1609] Kobold points out, and I agree, that the question is not whether there is an overlap in the embodiments claimed. Rather, the key question is an inventive difference. In obviousness double patenting analysis, the invention is at the heart of the patent: *Eli Lilly Canada Inc v Mylan Pharmaceuticals ULC*, 2015 FC 17 at para 128, *aff'd* [*Mylan FCA*].

[55] The question of overlapping claims or embodiments in the 571 and 830 Patents is at issue in this appeal and I will address the question later in this section.

[56] Kobold disputes NCS's position that the Asserted Claims of the 571 Patent are invalid for obviousness double patenting, relying in large part on its argument that the Federal Court made

no error in construing the Asserted Claims. Kobold adds that it disclosed at least two meritorious inventions to the public and, in return, received the 830 Patent and the 571 Patent both of which expire on the same date. In Kobold's view, the application of the doctrine of double patenting in this case would be an academic exercise that has no legal or factual basis and serves no equitable or policy purpose.

[57] Kobold's 571 Patent is a voluntary divisional application of the 830 Patent. The "evergreening" problem of successive patents identified in *Whirlpool* is no longer a concern in Canada in the context of a divisional patent following amendments to the *Patent Act* in 1989. A divisional patent has the same filing date as its parent patent and so the monopoly granted to the inventor of the divisional patent now expires on the same date as that of the parent patent:

Glaxosmithkline Inc. v Apotex Inc., 2003 FCT 687 at para. 89, 27 C.P.R. (4th) 114

(*Glaxosmithkline*). In contrast, under the provisions of the old *Patent Act*, R.S.C. 1970, c. P-4, an inventor could extend the life of the previous parent patent via a divisional patent because the second monopoly was granted from the date on which the divisional patent was issued.

[58] Nevertheless, invalidity on the ground of double patenting continues to apply to divisional patents (*Glaxosmithkline* at para. 91):

Furthermore, regardless of whether "the sin of double patenting" still exists, a patent holder should not be able to receive additional patents for the same invention. Support for this position can be found in the decision of Lutfy J. (as he then was) in *Bayer Inc. v. Canada (Minister of National Health and Welfare)* (1998), 154 F.T.R. 192, 82 C.P.R. (3d) 359, aff'd (2000), 6 C.P.R. (4th) 285 (F.C.A.).

[59] I do not read Kobold's policy argument to be an attempt to abolish the principle of double patenting for voluntary divisional patents. I find, however, no policy or equitable basis in this case for rejecting NCS's double patenting arguments in relation to the 571 and 830 Patents.

[60] I note the Federal Court's observation that "Kobold has not raised any objections to NCS's double patenting arguments": FC Decision at para. 1605. The Federal Court had earlier in the FC Decision determined that the "sin of double patenting" in the divisional context continues to be an exercisable ground of invalidity in Canada for a number of policy and practical considerations, none of which Kobold has contested: FC Decision at paras. 219-222. I also note that Kobold itself argued at trial that one of NCS's voluntary divisional patents was invalid due to double patenting. In this Court, counsel for NCS identified a number of obvious and material litigation issues that can and do arise if two patents claim the same invention. NCS highlighted Kobold's initial assertion of infringement of its 830 Patent, requiring NCS to litigate the two patents for an appreciable portion of the litigation.

[61] The Federal Court began its assessment of NCS's arguments by stating that the issue before the Court was whether there was inventiveness in moving from the 830 Patent to the 571 Patent, citing *Whirlpool* at paras. 63-67 and *Mylan FCA* at para. 28. The Federal Court acknowledged that, at a high level, Kobold's 830 and 571 Patents are directed at the same problem of damage to the downhole assembly due to the violence of the sleeve shift and both use shock absorbing or dampening sleeves to mitigate that damage. This statement reflects the Federal Court's description of the inventive concept of the 571 Patent as "a downhole apparatus

having a dampening mechanism able to control the speed of an inner sleeve as it moves toward a stop shoulder”: FC Decision at para. 1572.

[62] Turning to the 830 Patent, the Federal Court found that claim 17 and onward of the 830 Patent require a seal between the annular barrier and housing but that the 571 Patent claims “include embodiments without a seal arrangement between the sleeve and housing”: FC Decision at para. 1614. More specifically, claim 17 uses a sliding sleeve with a dampening mechanism that consists of an annular space divided into two annular chambers by a barrier seal arrangement. Importantly for this appeal, the Federal Court found that “Claim 13 of the 571 Patent shares the same inventive concept as Claim 17 of the 830 Patent” and suggested that claim 13 (not asserted in the litigation) may be invalid for double patenting: FC Decision at para. 1621.

[63] For ease of reference, claim 17 of the 830 Patent reads:

a tubular housing along a tubing string;

one or more ports in the tubular housing;

a sleeve located within the housing and axially moveable therein from a first closed position wherein the sleeve blocks the one or more ports to a second open position wherein the sleeve moves past the one or more ports to open the ports;

an annular space radially intermediate the housing and the sleeve located at a fixed location with respect to the housing;

a stop shoulder formed at a downhole end of the housing and extending radially into the annular space for delimiting axial movement of the sleeve at the second open position;

an annular barrier in the annular space, fixed to the sleeve and sealably moveable therewith for dividing the annular space into a first annular chamber and a second annular chamber axially immediately adjacent the first annular chamber, the first annular

chamber containing a first, incompressible dampening fluid, the movement of the annular barrier simultaneously reducing the volume of the first chamber and enlarging the volume of the second chamber;

a seal arrangement on the annular barrier for sealing between the sleeve and the housing; and

at least one metering passage fluidly connecting the first and second chambers across the seal arrangement, wherein

when the sleeve moves from the first closed position to the second open position, the first dampening fluid is pressurized and controllably released through the at least one metering passage to the second chamber for controlling the speed of the sleeve movement towards the stop shoulder.

[64] The Federal Court's analysis of obviousness double patenting was based on its construction of claim 12 and claim 16 (when it depends on claims 12, 11, 6, 4, 3 and 1) as not encompassing the seal embodiment:

[1615] Claim 16 covers two separate and distinct downhole apparatuses: one with an unsealed annular gap between the annular barrier and the housing (as it depends from Claim 12), and one with a seal arrangement on the annular barrier for sealing between the sleeve and the housing (as it depends from Claim 13).

[65] Although Kobold did not assert claim 13, it is a claim from which claim 16 depends, leading the Federal Court to analyze whether claim 13 was invalid for double patenting:

[1621] The only difference between Claim 17 and Claim 13 is that Claim 13 requires the annular comprise the seal arrangement, whereas Claim 17 requires the seal arrangement on the barrier. In my view, Claim 13 of the 571 Patent shares the same inventive concept as Claim 17 of the 830 Patent. Whether or not Claim 13 may be invalid for double patenting, Claim 16 still stands as the embodiment with an unsealed annular gap between the annular

barrier and the housing remains valid (for example Claim 16 as it depends from Claims 1, 3, 4, 6, 11, and 12).

[1622] I find that Claims 6, 11, 12, and 16 go beyond “mere design choices that would be known to the skilled person and would not require any degree of invention.” In sum, other than Claim 13, the Asserted Claims of the 571 Patent provide a potentially simpler solution, and different inventive concept, to address the same issue as the 830 Patent.

[Emphasis added]

[66] I have concluded that, properly construed, claim 12 encompasses the gap embodiment and the seal embodiment of the apparatus of the 571 Patent. So too does claim 16 when it depends from claim 12 (and claims 11, 6, 4, 3 and 1). Based on my corrected construction of the Asserted Claims, the Federal Court erred in law in stating that claim 16 stands as the embodiment with only an unsealed annular gap when it depends from claim 12. The Federal Court further erred in finding that claim 16 covers two separate and distinct downhole apparatuses, one with a gap when claim 16 depends from claim 12 and one with a seal when it depends from claim 13. The Asserted Claims of the 571 Patent do not only provide a potentially simpler solution and different embodiment (the gap embodiment) to address the same issue as the 830 Patent as found by the Federal Court, they also provide the same solution and use the same inventive concept to solve the problem addressed by the 830 Patent.

[67] Kobold relies on *Hospira* (at para. 99) to argue that overlapping embodiments of an apparatus (the gap and seal embodiments in the present case) are permissible if there is a “patentable distinction between the two patents”. Kobold submits that the Federal Court was correct to find patentable distinctions between the Asserted Claims and claim 17 of the 830 Patent.

[68] NCS disagrees, arguing that *Hospira* and its reference to overlap in embodiments are distinguishable on the basis that the relevant claim of the second patent in that case was narrower in scope than that of the first patent. NCS asserts that the Asserted Claims of the 571 Patent re-claim “the same invention” as claim 17 of the 830 Patent and are broader in scope than the 830.

[69] In my view, this Court’s reference to overlap in *Hospira* must be read in context and does not establish the blanket principle that overlapping embodiments are permissible and preclude a finding of invalidity for double patenting.

[70] In *Hospira*, the appellants appealed the Federal Court’s finding that the patent in issue, the “630 patent”, was not invalid due to double patenting based on a prior patent, the “647 patent”. Both patents contemplated a combination anti-inflammatory drug for the treatment of autoimmune or inflammatory diseases such as rheumatoid arthritis. Justice Locke identified three distinctions between the relevant claims of the two patents that led him to reject this ground of appeal and find that “the 630 patent concerns a different invention from that claimed in the 647 patent”: *Hospira* at para. 99. Two of the distinctions served to narrow the claims of the 630 patent from the relevant claims of the 647 patent. The third distinction was the failure of the 630 patent to specify what appeared to be the most important element of the claims of the 647 patent. The drugs contemplated by the two patents overlapped in purpose and composition but were nonetheless patentably distinct.

[71] A finding of invalidity due to obviousness double patenting requires an analysis of whether there is a patentable distinction between the Asserted Claims of the 571 Patent (the

second patent) and the 830 Patent such that the Asserted Claims are not obvious in view of claims 17 and onward of the 830 Patent.

[72] The tests for obviousness and obviousness double patenting are different. This Court in *Mylan FCA* identified three differences between them, including the policy rationale, none of which relate to the required “inventive step” analysis for double patenting: *Mylan FCA* at paras. 28-30. At its core, invalidity for obviousness double patenting centres on whether the differences between the claims of the first and second patents constitute obvious steps to a person skilled in the art (POSITA). This question parallels the central inquiry in obviousness that has regard to the prior art that would have been known to the POSITA at the relevant time: *Mylan FCA* at para. 37, citing *Merck & Co., Inc. v. Pharmascience Inc.*, 2010 FC 510 at para. 124.

[73] Obviousness is assessed on a claim-by-claim basis to establish each claim’s inventive concept but “a single, overarching inventive concept connects every claim of a patent, with its genesis usually in the independent claim(s)”: *Apotex Inc. v. Shire LLC*, 2021 FCA 52 at paras. 55, 86 (*Shire*), leave to appeal to SCC refused, 39662 (October 7, 2021); *Munchkin* at para. 53. Here, there is arguably no difference between the inventive concept of the 571 Patent and the 830 Patent. Both patents comprise a downhole apparatus having a dampening mechanism able to control the speed of an inner sleeve as it moves toward a stop shoulder. However, despite the two patents sharing a single inventive concept, each claim in a particular patent has a single inventive concept that may be distinct from the inventive concept of the other claims in the patent. It is therefore necessary to determine the inventive concept of each of Asserted Claims 12 and 16 and

whether the inventive concept of those Asserted Claims is patently distinct from claim 17 of the 830 Patent: *Shire* at para. 87.

[74] The analysis is not limited to identifying the presence of overlapping embodiments although the Federal Court's finding that claim 13 of the 571 Patent has the same inventive concept as claim 17 of the 830 Patent is an important consideration in the analysis. A person who creates a sliding sleeve dampening apparatus in the seal embodiment may face claims of infringement of the Asserted Claims and, at the same time, claims of infringement of the relevant claims of the 830 Patent. However, the Asserted Claims, properly construed, include the gap embodiment and the seal embodiment, and the inventive concept of the Asserted Claims must be established based on the Federal Court's findings of the essential elements of each of the Asserted Claims.

[75] Because the Federal Court erred in construing the Asserted Claims, its conclusion that the Asserted Claims are not invalid for obviousness double patenting must be set aside for re-determination. The Federal Court, having heard the testimony and considered the evidence at trial, is better placed than this Court to address NCS's assertion of invalidity of the Asserted Claims for obviousness double patenting: *Pfizer Canada Inc. v. Teva Canada Limited*, 2016 FCA 161 at paras. 156-157. Therefore, I would remit this issue to the Federal Court for re-determination based on the correct construction of the Asserted Claims and these reasons for judgment.

VI. Costs at Trial

A. *The Federal Court's lump sum costs award of \$1,800,000*

[76] The Federal Court awarded lump sum costs to Kobold and Promac in the amount of \$1,800,000, reflecting 45% of Kobold's estimated \$4,000,000 in legal fees incurred, and disbursements of \$568,418.38. The disbursements award is not at issue. Apportionment of the lump sum award was left to Kobold and Promac.

[77] The costs award gives rise to two issues on appeal. I will first address NCS's submission that the Federal Court made procedural and legal errors in the costs award. Second, in light of NCS's success on appeal, an appeal contesting only the disposition of the counterclaim, it is necessary to determine the effect of the appeal on the costs amount awarded.

[78] An understanding of the process that led to the costs award provides context for the parties' arguments. On the last day of trial, the Federal Court directed each of NCS and Kobold to file written costs submissions and to include with the submissions a copy of their bill of costs. The Court emphasized that there would be no right of reply, stating that the submissions should not be made in response to those of the other party. Counsel for NCS and Kobold agreed to the process.

[79] In response to the Federal Court's direction, NCS requested lump sum costs calculated as a percentage of legal fees incurred, arguing that an award based on Tariff B of the *Federal*

Courts Rules, SOR/98-106, would not be reflective of the legal work and expense incurred in this complex litigation. NCS presented eight different costs scenarios in which the requested lump sum percentage varied between 40% and 20% depending on the degree of success of its infringement claims against Kobold and/or Promac. Conversely, should Kobold succeed in whole or in part in its counterclaim, NCS proposed a lower set of percentages (between 20% and 5%). NCS explained the discrepancy in its proposed percentage ranges as reflective of Kobold's litigation conduct.

[80] Kobold similarly requested a lump sum costs award for counsel fees but based its request on the upper end of Column V of Tariff B. It did not seek costs calculated as a percentage of legal fees incurred. Assuming full success in the litigation, Kobold requested a lump sum of \$621,820 plus HST and included a bill of costs and summary of disbursements with its submissions. Kobold recognized that its request would result in a significantly lower award than an amount within the accepted 25%-50% range of actual fees incurred "which totalled over four million dollars (not including tax and disbursements)" but sought to avoid "another protracted dispute between the parties".

[81] First, NCS argues that it was denied procedural fairness because the Federal Court awarded costs in a form (percentage of legal fees) and amount Kobold had not requested. NCS seeks to extend the general principle that costs may not be awarded where costs were not requested (*Exeter v. Canada (Attorney General)*, 2013 FCA 134 at para. 12 (*Exeter*)) to the situation in which a particular form and quantum of costs were not requested.

[82] Kobold submits that the Federal Court did not deny NCS procedural fairness in awarding costs. The parties agreed to a procedure in which neither party would be afforded the opportunity to respond to the other. Kobold points out that NCS itself requested lump sum costs based on a range of fee percentages and proposed the same for Kobold and Promac, albeit within a lower range. Kobold insists that NCS was well aware it would have no opportunity to test Kobold's costs submissions and that there is no basis to extend the principle from *Exeter* beyond its stated parameters.

[83] There is no doubt that the Federal Court has broad discretion in awarding costs: Rule 400(1); *Nova Chemicals Corporation v. Dow Chemical Company*, 2017 FCA 25 at para. 10 (*Nova Chemicals*). In addition, lump sum costs awards are permissible and commonly used by the courts in both simple and complex proceedings: *Nova Chemicals* at para. 11. The jurisprudence generally supports lump sum awards between 25% and 50% of actual fees depending on the circumstances of the case (*Nova Chemicals* at para. 17), with awards of between 25% and 33% as the norm: *Shire* at para. 22.

[84] In the present case, the process established by the Federal Court for the provision of costs submissions did not include the filing of response submissions by either party. Kobold argues that the process was fair because the parties were aware of the terms of the process, were both at risk and agreed to it. Indeed, I find no reviewable error in the Federal Court's decision to limit the parties to one set of submissions, without a right of reply. However, in my view, NCS is not arguing that such a process is unfair.

[85] Rather, NCS argues that, because the Federal Court's ultimate costs award was not based on Kobold's submissions, it was procedurally unfair for NCS to have no opportunity to test the award (including, Kobold's approximation of \$4,000,000 in legal fees). Moreover, as Kobold's request for costs was based on Tariff B, its submissions contained only passing reference to its actual legal fees, resulting in an evidentiary vacuum that precluded any assessment by the Federal Court or NCS of its stated legal fees.

[86] In arriving at its costs award, the Federal Court summarized Kobold's costs submissions, setting out the amount requested based on the upper end of Column V of Tariff B. The Court noted Kobold's acknowledgment that "the amounts using the tariff are lower than the typical range of fees requested submissions" and that "no exhibits were filed concerning the actual fees": FC Decision at para. 1670. The Federal Court also referred to Kobold's statement of its approximate aggregate legal fees and concluded that a fair assessment of the fees incurred by Kobold and Promac was \$4,000,000.

[87] Other than its reliance on Kobold's fee estimate, the Federal Court did not base its costs award on the submissions received from Kobold. The Federal Court assessed many of the relevant factors in Rule 400(3) and the jurisprudence establishing the accepted range for lump sum awards of 25% to 50%, and concluded:

[1674] Starting at the mid-point of the 25%-50% range suggested in *[Allergan Inc. v. Sandoz Canada Inc., 2021 FC 186]* is 37.5% of actual legal fees. But when all of the factors are considered then the upper portion of this range would best accomplish the goals of an award. I will use 45% of the actual legal fees.

[88] The Federal Court did not explain its rationale for departing from Kobold's requested costs.

[89] Appeal courts properly defer to the trial judge who has "wide latitude in assessing what is an appropriate lump sum" (*Shire* at paras. 17-18) but a trial judge's broad discretion in awarding costs must be exercised in a procedurally fair manner and the award must be supported by evidence and reasons sufficient to permit appellate review. In *Exeter*, the question before the Court was whether the absence of a request for costs on an interlocutory motion by the successful party precluded an award of costs. The Court's answer that a court could not award costs when not requested was based squarely on the principles of procedural fairness (*Exeter* at para. 12):

To award costs in these circumstances would be a breach of the duty of fairness because it would subject the party against whom they are awarded to a liability when the party had had no notice or an opportunity to respond: see, for example, *Nova Scotia (Minister of Community Services) v. Elliott (Guardian ad litem of)* (1995), 141 N.S.R. (2d) 346 (N.S.S.C.) at para. 5.

(See also *Chen v. Canada (Public Safety and Emergency Preparedness)*, 2019 FCA 170 at para. 60.)

[90] NCS and Kobold agreed to a process for the provision to the Federal Court of costs submissions that was not unfair. That process contemplated no right of reply by either party but should not be interpreted as immutable. The parties served and filed their respective costs submissions at trial in March 2022. From that time until its receipt of the confidential draft of the FC Decision on or about November 10, 2023, NCS would have had notice of Kobold's costs

request. NCS did not request an opportunity to file a response after its receipt of Kobold's submissions because it had no reason to do so. Kobold's submissions took a conservative approach to costs in what was a lengthy patent proceeding.

[91] I find that NCS was denied procedural fairness when the Federal Court awarded costs in form and amount that had not been requested. Effectively, NCS was subjected to a liability of which it had no notice and to which it had no opportunity to respond. Once the Federal Court determined that Kobold's requested lump sum inadequately reflected the nature of the litigation, notice should have been provided to the parties requesting further costs submissions based on legal fees incurred, together with evidence of actual legal fees.

[92] Kobold's reliance on the fact that all possibilities were in play and that NCS had requested costs using a range of percentages of fees incurred does not bridge the gap in the Federal Court's reasons. Kobold has not pointed the Court to jurisprudence in which a court has awarded costs to a litigant on a different basis and in a significantly higher amount than those requested. I acknowledge this Court's statement in *Shire* (at para. 18) that a lump sum may be assessed "at enhanced, lesser, or approximated values to those calculated by the parties or as based on the Tariff". The issue in this case is that no request for an enhanced award as a percentage of fees incurred was made.

[93] I emphasize that the Federal Court's costs award reflects a material departure in principle from that requested by Kobold. Kobold did not ask for costs based on legal fees incurred at any percentage and provided very little evidence of its legal fees. In substance, the costs award was

made outside of the agreed process. If Kobold had requested costs based on legal fees incurred within or at the high end of the 25% to 50% range, 45% may have been a justified exercise of the Federal Court's broad discretion. Kobold made no such request and the amount awarded was of a different order of magnitude than that requested. The departure also occurred in specific circumstances. There was no notice of the possibility of a significantly higher costs award and no opportunity for the parties to respond to the Federal Court's clear discomfort with Kobold's conservative request.

[94] I now address NCS's more significant and related concern. NCS submits that the Federal Court erred in law in awarding sizeable lump sum costs without evidence, citing this Court's decision in *Nova Chemicals*. NCS argues the Federal Court's reliance on Kobold's one statement that its fees totalled over four million dollars was procedurally unfair. Had NCS been afforded the opportunity to respond, it could have tested the fee estimate and provided submissions regarding the absence of a proper evidentiary record.

[95] Kobold submits that there was good evidence of its legal fees before the Federal Court and that the Court committed no error in relying on its submissions, bill of costs and the court docket. In Kobold's view, the issue before this Court is one of sufficiency of evidence reviewable for palpable and overriding error and not error in principle.

[96] It is well established that a lump sum costs award must be supported by sufficient evidence to ensure predictability and fairness to the other party: *Nova Chemicals* at para. 18; *Shire* at para. 24. NCS and Kobold acknowledge the need for evidence but differ on whether

Kobold provided the Federal Court with any or sufficient evidence of the nature and extent of its legal fees. NCS submits that the provision of a bill of costs and the court docket is not, without more, evidence of actual fees incurred. In response, Kobold argues that there is no requirement for counsel's accounts or for an affidavit in support of costs, and that the Federal Court and this Court regularly accept submissions of counsel as to actual legal fees when determining a lump sum award.

[97] Justice Rennie set out a framework for assessing the nature of the evidence required to properly support a lump sum award in *Nova Chemicals*:

[18] When a party seeks a lump sum award based on a percentage of actual legal fees above the amounts provided for in the Tariff, as a matter of good practice the party should provide both a Bill of Costs and evidence demonstrating the fees actually incurred. As well, a sufficient description of the services provided in exchange for the fees should be given to establish that it is appropriate that the party be compensated for those services.

[98] To place Justice Rennie's framework in its factual context, Dow Chemical had sought costs representing 30% of its legal fees, or costs based on Column V of Tariff B in the alternative. It provided the Federal Court "with both a Bill of Costs, as well as a summary of Dow's actual solicitor-client fees": *Nova Chemicals* at para. 22.

[99] There is no rule that requires a party to provide its accounts and dockets in order to be entitled to a lump sum costs award. Courts have accepted bills of costs as support for a lump sum award based on a percentage of fees incurred in circumstances where a party has requested such an award. In those cases, the trial judge had before them the party's written and oral submissions

regarding fees incurred and, very often, additional evidence of total fees incurred as in *Nova Chemicals*. There are many cases in which the requesting party filed an affidavit in support of its request for a lump sum costs award (as did NCS in this case), itemized amounts claimed, provided billable rates and/or gave a summary explanation of its legal costs.

[100] The Federal Court had Kobold's statement that its legal fees totalled over \$4,000,000, Kobold's bill of costs, and the court docket. Kobold provided no affidavit, explanation or summary of its actual legal fees or its accounts and its reference to total fees was made solely in support of its request for costs at the high end of Column V of the Tariff. There was no oral argument to inform the Federal Court regarding Kobold's legal fees and provide an opportunity for the Federal Court, and NCS, to test those fees. The Federal Court had no information on which it could assess Kobold's fee estimate against the bill of costs which summarizes the steps of the proceeding but does not explain the fees incurred. Similarly, the court docket is extensive and demonstrates the complexity of the litigation but provides very limited support for Kobold's stated legal fees.

[101] In these circumstances, I find that there was insufficient evidence of Kobold's actual legal fees before the Federal Court to enable it to determine whether the approximate \$4 million of legal fees claimed was reasonable in the context of the proceeding.

[102] The absence of evidence in support of Kobold's legal fees underlines the fairness issues with the process for costs submissions in this proceeding and the Federal Court's departure from

the resulting submissions. Kobold had no opportunity to support its quantum of legal fees and NCS had no opportunity to challenge the lump sum award and test Kobold's fees.

[103] For these reasons, I conclude that the Federal Court made a reversible error in awarding lump sum costs to Kobold and Promac of \$1,800,000.

[104] Accordingly, I would set aside the Federal Court's costs award. In my view, an appropriate and justified costs award is the amount Kobold requested: costs calculated at the upper end of Column V of Tariff B. This results in a costs award to Kobold and Promac of a lump sum of \$621,820, plus disbursements (in the amount of \$568,418.38) and taxes.

[105] I have considered Kobold's submission that the question of costs must be remitted to the Federal Court with directions to re-start the submissions process. I decline to do so because the process for costs submissions established by the Federal Court was fair. Kobold is a sophisticated litigation party, assessed the risks of requesting lump sum costs based on actual legal fees and decided not to do so, thereby avoiding the need to provide evidence of its actual costs. Kobold characterized its request as a "conservative and reasonable quantum of costs" and I see no reason to now permit Kobold to change its strategy.

B. *Effect of successful appeal on costs*

[106] NCS has successfully established (a) that the Federal Court erred in construing the Asserted Claims; (b) that, once the Asserted Claims are correctly construed, the Federal Court's

analysis of the validity of the Asserted Claims cannot stand; and (c) that the Federal Court erred in awarding costs at trial to Kobold and Promac in the lump sum amount of \$1,800,000. The majority of the Federal Court's findings have not been challenged and remain undisturbed.

[107] As a result, it is necessary to determine the impact of the appeal on the costs award at trial, namely the portion of the revised costs award to which Kobold and Promac are not entitled and that must be repaid to NCS, with or without interest. Because the Federal Court's re-determination of the validity of the Asserted Claims of the 571 Patent will in turn affect the portion of the revised costs award to which Kobold and Promac are not entitled, I would remit the assessment of the impact of the appeal on the revised costs award of \$621,820 to the Federal Court.

VII. Proposed disposition

[108] I would allow NCS's appeal, set aside paragraphs 7, 8, 9, 10 and 11 of the judgment of the Federal Court and remit to the Federal Court (i) the issue of validity of the Asserted Claims for obviousness double patenting and (ii) the impact of the appeal on the portion of the revised costs award to which Kobold and Promac are not entitled, both in accordance with these reasons for judgment.

[109] Finally, I would award costs of the appeal to NCS on the usual scale, discounted by 50% because of its successive and significant, late-stage abandonment of material issues from the appeal.

"Elizabeth Walker"

J.A.

"I agree.

David Stratas J.A."

"I agree.

K.A. Siobhan Monaghan J.A."

FEDERAL COURT OF APPEAL

NAMES OF COUNSEL AND SOLICITORS OF RECORD

DOCKET: A-309-23

STYLE OF CAUSE: NCS MULTISTAGE INC. v.
KOBOLD CORPORATION,
KOBOLD COMPLETIONS INC.,
2039974 ALBERTA LTD. and
PROMAC INDUSTRIES LTD.

PLACE OF HEARING: TORONTO, ONTARIO

DATE OF HEARING: APRIL 3, 2025

REASONS FOR JUDGMENT BY: WALKER J.A.

CONCURRED IN BY: STRATAS J.A.
MONAGHAN J.A.

DATED: OCTOBER 20, 2025

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