Federal Court  Cour fédérale

Date: 20201112

Docket: T-89-18

Citation: 2020 FC 1049

Toronto, Ontario, November 12, 2020

PRESENT: Case Management Judge Kevin R. Aalto

BETWEEN:

MUD ENGINEERING INC.

Plaintiff

and

SECURE ENERGY SERVICES INC.
AND SECURE ENERGY
(DRILLING SERVICES) INC.

Defendants

AND BETWEEN:

SECURE ENERGY
(DRILLING SERVICES) INC.

Plaintiff by Counterclaim

and

MUD ENGINEERING INC.
AND AN-MING (VICTOR) WU

Defendants by Counterclaim

ORDER AND REASONS

". . . it is hard enough for many to pursue a case from beginning to end; why force them to do it twice?"[1]

I. INTRODUCTION

[1] Much has been written and decided about the jurisdiction of the Federal Court. The jurisdiction of the Federal Court is limited to the statutory power conferred to it through the *Federal Court Act*[2] of 1971 and amended by the *Federal Courts Act*[3]. The Federal Court does not have inherent jurisdiction akin to provincial superior courts; all of its jurisdiction must be found in the *Federal Courts Act*[4] and other federal legislation[5].

[2] Notwithstanding that, the Federal Court has both exclusive and concurrent jurisdiction in intellectual property matters, there are lingering doubts as to the extent of that jurisdiction when issues relating to the ownership of patents enters the fray. Such is the case here. In this patent infringement action, there is a dispute among the parties concerning the ownership of the patents (Disputed Patents) that requires the Court to consider and interpret contracts and other documents relating to the inventions.

[3] On the present motion before the Court, the Plaintiff/Defendants by Counterclaim (Mud Engineering) seek a determination of a point of law either by way of a declaration or by way of

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[1] The Honourable Mr. Justice David Stratas of the Federal Court of Appeal, *Salt Canada Inc. v. Baker*, 2020 FCA 127 at para 38 (*Salt Canada*)
[2] R.S.C. 1920, c. 10 (2nd Supplement)
[3] R.S.C. 1985, c. F-7
[4] Ibid.
[5] For a more complete discussion of the Federal Court's jurisdiction see Saunders, Rennie and Garton, *Federal Courts Practice 2020*, Thomson Reuters Canada Limited, 2019 at pp. 1-33

an order pursuant to Rule 220 as to whether this Court has the jurisdiction to decide ownership of the Disputed Patents.

II. FACTUAL OVERVIEW

[4] This is a patent infringement action concerning the Disputed Patents related to drilling fluid compositions used in extracting bitumen from wells in Western Canada. Mud Engineering alleges that the Defendants/Plaintiffs by Counterclaim (Secure Energy) have sold products that infringe the Disputed Patents.

[5] Secure Energy defends the action on the basis of non-infringement and invalidity. However, what is key to this motion is an allegation by Secure Energy that it is the rightful owner of the Disputed Patents. The factual underpinning of the claim of ownership by Secure Energy flows from employment agreements and other documents and conduct of the named inventor of the Disputed Patents arising out of his prior employment by Secure Energy or a predecessor company of Secure Energy. For purposes of the disposition of this motion, it is not necessary to delve into the complicated and labyrinthine corporate reorganizations which gives rise to the ownership claims to the Disputed Patents.

[6] Because of the uncertainty surrounding the jurisdiction of this Court to entertain and decide the ownership issue, an action was commenced in the Alberta Court of Queen's Bench by Mud Engineering against Secure Energy (Alberta Action).[6] The Alberta Action includes allegations of patent infringement, validity and most importantly for the purposes of this motion,

[6] Action No. 1801-04988

a declaration confirming that Mud Engineering is the owner of the Disputed Patents. While that head of relief was abandoned on consent, Secure Energy nonetheless raised the ownership issue in its counterclaim. As is apparent from a review and comparison of Secure Energy's pleading in this action and the Alberta Action, the allegations are very much identical. Thus, the ownership of the Disputed Patents is in play in both courts.

[7] In order to avoid duplicative proceedings, Mud Engineering brought an application in the Alberta Action to stay all issues concerning patent infringement, validity, and title to the Disputed Patents in favour of a determination of these issues in the Federal Court action. Secure Energy opposed the relief by arguing that "it is not clear whether the Federal Court has jurisdiction to determine the Ownership Issue". In particular, Secure Energy made the following argument in the Alberta Action:

> 32. It is well established that the Federal Court lacks jurisdiction where the issue to be decided is the proper owner of a particular patent, where ownership depends on the interpretation of various contract documents between the parties and the application and interpretation of contract law principles.
>
> 33. Patent ownership issues often involve interpretation of contractual documents between the parties. For example, in the present action, the Ownership Issue involves the interpretation of employment contracts and assignment agreements. If a dispute is primarily a matter of contract, then the Federal Court lacks jurisdiction to determine the issue of ownership. This is because interpretation of contracts requires the interpretation and application of provincial law and the Federal Court has no jurisdiction to entertain such a dispute…
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> …

> 39. The essence of the Ownership Issue in the present action is primarily contractual, requiring the interpretation of the following agreements:
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> i. the Employment Contract
>
> ii. the 2003 Confidentiality Agreement; and
>
> iii. the Assignment Agreements.
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> 40. Thus, the Federal Court may not have jurisdiction to determine the Ownership Issue…[7]

[8] Ownership of the patent is a threshold issue both in this Court and in the Alberta Action. A decision on ownership will determine what issues remain for the Court to hear and decide.

III. ALBERTA QUEEN'S BENCH DECISION

[9] The Honourable Madam Justice Ashcroft heard the stay application and dismissed it by oral decision on January 17, 2020[8]. Fundamental to Justice Ashcroft's decision was an underlying concern as to the jurisdiction of the Federal Court to deal with contractual issues. Justice Ashcroft made the following observation:

> As noted above, **the issue of unclear jurisdiction, while it may not be determinative, remains an important factor in my assessment of whether the Federal Court is the more appropriate forum**. The Federal Court does not have jurisdiction where the issue to be decided is the proper owner of a particular patent and a determination of ownership depends on the interpretation of certain contracts: *Farmobile* para 27. In other words, the contractual or ownership issue is not ancillary to the patent issue. My assessment of the case law as applied to the

[7] Secure Energy's Reply Brief dated Nov. 7, 2019 in ABQB No. 1801-04988, ¶32-39 – Affidavit of Nathan Simpson, dated August 28, 2020, Ex 6; MR Tab B6

[8] Oral decision of Ashcroft J. delivered January 17, 2020 in ABQB No. 1801-04988

> pleadings before me indicates that while the Federal Court may decide, as in *Farmobile*, to allow the pleadings in the statement of defence which defend on the basis of ownership and contract, **it likely will not assume jurisdiction to hear the counterclaim even if ownership was only pled in the alternative. The factual context, at least at this point in the proceedings and given the limited information before me, seems sufficiently intertwined with the ownership claim that the Federal Court likely will not view the claim as only ancillary to the patent issue**. It appears then if a stay is granted, it is likely that at least the counterclaim would have to be heard in the Alberta Court of Queen's Bench sometime in the future. [emphasis added][9]

[10] In dismissing the stay application, Justice Ashcroft specifically noted the Federal Court's "expertise in patent disputes" and invited the parties to seek a preliminary determination from the Federal Court on the issue of jurisdiction. Justice Ashcroft stated:

> **I accept that the Federal Court has particular expertise in patent disputes, and I further accept its judgment can be enforced across Canada**. However, these factors do not outweigh the particular issues related to the lack of jurisdiction of the Federal Court to determine issues related to ownership and the interpretation of employment agreements, which are relevant in this case because of the pleadings of the defendant.
>
> …
>
> **Given that the matter is in case management at the Federal Court, it may be prudent to request that the Federal Court rule on the jurisdictional issue as a preliminary matter**. However, until such time as the Federal Court assumes or declines jurisdiction with respect to all of the matters as set out in the pleadings, the ABQB action can continue.
>
> **In the event that the Federal Court assumes jurisdiction with respect to all matters raised in the pleadings, the applicant may renew its application for a stay**. [emphasis added][10]

[9] Ibid. p. 6
[10] Ibid. p. 7

[11] The parties accepted the invitation of Justice Ashcroft to obtain a preliminary determination from this Court and, thus, this motion was brought for a determination of precisely that point of law under Rule 220 of the *Federal Courts Rules*.

[12] Out of desire for a clear decision on jurisdiction, Mud Engineering has brought this motion. Mud Engineering firmly supports the proposition that the Federal Court has jurisdiction to interpret contracts in determining the ownership of patents. Secure Energy does not oppose the motion notwithstanding the allegations in its pleadings.

IV. SALT CANADA DECISION

[13] This change in the approach of Secure Energy may arise from the fact that recently, the Federal Court of Appeal in *Salt Canada* has definitively and, one hopes, finally put this issue to rest once and for all.

[14] *Salt Canada* was decided after the decision of Justice Ashcroft. In my view, it is a complete answer to the jurisdictional issue. *Salt Canada* deals squarely with the issue of ownership of patents. The case concerns an application brought by Salt Canada seeking to have the Commissioner of Patents vary the records in the Patent Office to reflect Salt Canada as the owner of a patent. At first instance, the application was dismissed on the basis that the Federal Court does not have jurisdiction to decide the matter as the application required the Federal Court to interpret contracts.[11] The hearings judge held that the interpretation of contracts fell exclusively within the jurisdiction of the provincial superior courts.

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[11] 2016 FC 830

[15] In overturning the Federal Court's decision, the Honourable Mr. Justice David Stratas, speaking for the Federal Court of Appeal, conducted an extensive analysis of the Federal Court's jurisdiction in patent matters. His analysis began with a consideration of s. 52 of the *Patent Act*[12]. That section provides that the "Federal Court has jurisdiction…to order that any entry in the records of the Patent Office relating to the title to a patent be varied or expunged". Justice Stratas observes:

> [8] The plain meaning of the words of section 52 of the *Patent Act* are clear. A consideration of context and purpose confirms that plain meaning: the Federal Court has the jurisdiction to vary or expunge the title to a patent as reflected in the records of the Patent Office.
>
> [9] An important element of context is that section 52 of the *Patent Act* gives this power to the Federal Court, not the Patent Office. Thus, one may surmise that the power is a judicial one, not an administrative one. If the power were purely administrative—to rubber stamp a legal state of affairs adjudicated on the facts and the law elsewhere—Parliament would have given it to the Patent Office. But Parliament gave it to the Federal Court.
>
> [10] The power given under section 52 of the *Patent Act* is a judicial one, to determine issues of title to a patent. **That determination may involve a number of things, including the interpretation of agreements and other commercial instruments**. Quite appropriately, that judicial power has been given to the Federal Court, not the Patent Office. [emphasis added][13]

[16] On the specific question of interpretation of contracts, Justice Stratas explicitly states that the "Federal Courts frequently determine questions that require agreements to be interpreted"[14]. As examples, he cites, *inter alia*, "agreements and other commercial instruments"[15] in tax issues;

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[12] R.S.C. 1985, c. P-4
[13] Ibid. p. 3
[14] Ibid. para 15
[15] Ibid. para 16

interpreting settlement agreements; interpreting transfer price agreements; interpreting employment agreements; interpreting arbitration clauses; and, interpreting copyright licensing agreements [citations omitted][16].

[17] Finally, and importantly, Justice Stratas unequivocally concludes this analysis as follows:

> Patent infringement cases also supply many examples. For example, defendants in patent infringement actions in the Federal Court sometimes defend on the basis that the plaintiff does not own the patent. **That issue, frequently determined by interpreting agreements and other instruments, is something the Federal Court can do in patent infringement actions** . . . [emphasis added, citations omitted][17]

[18] In this action, Secure Energy alleges it owns the Disputed Patents and raises this as a defence to infringement. Thus, Secure Energy seeks an order correcting the Patent Office's records. This is on all fours with Justice Stratas' conclusion that ownership of patents requires interpretation of documents whether they be contracts, employment agreements, or other documents.

[19] Some quick-witted lawyers might argue that the observations made by Justice Stratas are *obiter* as they do not directly flow from the *Patent Act* analysis. Such lawyers may conclude on this basis that the jurisdiction of this Court to interpret contracts in a patent infringement case is still an open question. In my view, however, that is a stretch and a distinction without a difference. There is inherently no difference between interpreting contracts for the purposes of registration of a patent and a determination of ownership of a patent in an infringement action.

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[16] Ibid. para 17
[17] Ibid. para 20

V. RELIEF SOUGHT

[20] Mud Engineering is seeking a declaration pursuant to Rule 64 that this Court has jurisdiction. Instead, I will provide an answer to a question of law under Rule 220. This relief ensures that this Order will not be construed as case specific as an answer to a question of law has greater ambit. Mud Engineering on this motion asks this Court to answer this question (Proposed Question):

(i). Does the Federal Court have jurisdiction to adjudicate Secure Energy (Drilling Services) Inc.'s claim to the title of Canadian Patent Nos. 2,635,300 and 2,725,190 in the context of each of (i) a defence to alleged infringement of those patents; and (ii) a counterclaim for a declaration of ownership and an order pursuant to s. 52 of the *Patent Act* directing the records of the Patent Office be amended to reflect Secure Drilling Services as the owner of those patents, as pleaded in the T-89-18 Action?

[21] In my view, for the reasons herein, the answer to the question is an unequivocal yes.

[22] Rule 220 provides as follows:

> **Preliminary determination of question of law or admissibility**
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> 220 (1) A party may bring a motion before trial to request that **the Court** determine
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> (a) a question of law that may be relevant to an action;

> (b) a question as to the admissibility of any document, exhibit or other evidence; or
>
> (c) questions stated by the parties in the form of a special case before, or in lieu of, the trial of the action

[23] There is a tri-part test that must be satisfied in order to invoke this procedure. The Court must be satisfied that:

> (a) the question posed is a pure question of law and does not require findings of fact to answer the question;
>
> (b) the question to be answered is not academic and will be "conclusive of a matter in dispute"; and
>
> (c) by pursuing this "exceptional" procedure the Court is satisfied that there will be a saving of time and expense.[18]

[24] In this case, all three of these requirements have been met. First, the Proposed Question goes to the heart of what was a seriously disputed issue; namely, the jurisdiction of this Court to interpret contracts to determine ownership of a patent. It is not an academic question despite the fact that the decision in *Salt Canada* answers the question. The pleadings in this action still raise the issue and plead that determination of ownership is outside the jurisdiction of the Federal Court. For example, Secure Energy pleads in its counterclaim:

> 37. Secure Energy bases its claims of ownership of the 300 and 190 Patents made out in paragraphs 28-44 on an alleged breach of an employment agreement and misappropriation of confidential information. The claims found requests for relief in the counterclaim independent and separate from Secure's defences in the action that could operate as stand-alone causes of action in

[18] *Apotex Inc. v Pfizer Ireland Pharmaceuticals*, 2012 FC 1301 at para 8; *Perera v Canada*, [1998] 3 FC 981 (CA)

> other proceedings. The claims are not ancillary to any matter properly within the jurisdiction of the Federal Court.

[25] The latter sentence in Secure Energy's pleading that the claims "are not ancillary to any matter within the jurisdiction of the Federal Court" engages the three-part test set out in *ITO-Int. Terminal Operators Ltd. v Miida Electronics Inc (ITO).*[19]. *ITO*, and the jurisprudence flowing from it, allows the Federal Court to assume jurisdiction in a matter over which it does not have direct statutory jurisdiction if the matter is "ancillary" to a claim properly within the jurisdiction of the Federal Court. Secure Energy argues that the Federal Court does not gain jurisdiction over ownership of patents through contract interpretation as an ancillary issue to patent infringement. Notably, *ITO* was not discussed or referred to by Justice Stratas in *Salt Canada*. For good reason, there was no need to discuss the jurisdiction of ownership of patents through ancillary means when the jurisdiction of the Federal Court is clear pursuant to s. 52 of the *Patent Act*[20].

[26] If a motion to strike that paragraph of the pleading had been brought instead, this question of law would still have had to be answered. Thus, it is not an academic question. Further, the issue of the Federal Court's jurisdiction is incorporated into the definition of "Liability Issues" within the Bifurcation Order[21] issued in this case. Again, the Proposed Question would need to be answered.

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[19] [1986] 1 S.C.R 752 at 766. For ancillary jurisdiction, there must be (a) a statutory grant of jurisdiction; (b) an existing body of federal law essential to the disposition of the case and which nourishes the statutory grant of jurisdiction; and, the law on which the case is based must be a law of Canada as defined in s. 101 of the *Constitution Act, 1867*

[20] Ibid. fn. 12

[21] Bifurcation Order dated March 20, 2019, para 1(c)(iii) (T-18-89 Docket No. 41)

[27] Second, no findings of fact are necessary to decide whether this Court has the necessary jurisdiction. It is a pure question of law.

[28] Third, there is little doubt in my mind that providing an answer to the Proposed Question will result in a saving of expense, judicial resources and time. In the tagline to these reasons, the observation of Justice Stratas is apposite. Two trials in two different courts on overlapping issues are not necessary to determine the issues between the parties. The Federal Court has the jurisdiction to deal with all of the issues, thus making the Alberta Action redundant and duplicative. This represents a saving in expense and time of the parties as well as a significant saving of judicial resources. Avoiding a multiplicity of proceedings relating to the same issues also avoids the possibility of inconsistent findings and decisions.

[29] Further, given my conclusion that this Court has jurisdiction to entertain and decide the threshold issue of ownership of the Disputed Patents, there will be a significant cost-saving to the parties by allowing the use of summary trial procedures to determine that issue should they choose. As noted in the Written Representations of Mud Engineering at paragraphs 48 to 49:

> 48. Indeed, a finding in Mud Engineering's favour ought to resolve much of Secure Energy's allegations provided under the heading "Mud Engineering does not own the '300 and '190 Patents" in their defence35 and would be a full answer to Secure Energy's counterclaim that Mud Engineering infringes its own patents and is otherwise liable for the unlawful ownership or misappropriation of the subject matter of those patents.
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> 49. On the other hand, a finding that Secure Energy is rightfully entitled to the Mud Engineering Patents would likely amount to a full defence to the infringement claims made against them in the T-89-18 Action and Secure Energy could then decide whether to pursue their counterclaim or not.

VI. CONCLUSION

[30] Rule 220 contemplates a two-stage procedure. First, the Court decides whether the Proposed Question should be determined before trial. Second, if such an order is made, the Court may hold a second hearing to decide the question of law. However, where the parties consent the two hearings may be combined to one hearing. [22] Such was the case here.

[31] In the result, the Proposed Question is therefore answered in the affirmative. This Court does have the jurisdiction to determine the issue of ownership of the Disputed Patents.

[32] Given the Court's conclusion on the question of law, both the Bifurcation Order and each party's pleadings must be amended in accordance with these reasons.

[33] Mud Engineering sought its costs on this motion in the amount of $1500.00 an amount that in my view is eminently reasonable.

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[22] *Canadian Private Copying Collective v J & E Media Inc.*, 2010 FC 102

ORDER

THIS COURT ORDERS that:

1. The answer to the Proposed Question is yes.

2. A case conference will be convened to finalize the parties' respective pleadings in accordance with these reasons.

3. Mud Engineering shall have its costs of this motion, which are hereby fixed and payable forthwith in the amount of $1500.00.

"Kevin R. Aalto"
Case Management Judge

FEDERAL COURT

SOLICITORS OF RECORD

DOCKET:	T-89-18
STYLE OF CAUSE:	MUD ENGINEERING INC. v SECURE ENERGY SERVICES INC., AND SECURE ENERGY, (DRILLING SERVICES) INC. AND VICTOR HUNG
PLACE OF HEARING:	TORONTO, ONTARIO
DATE OF CONFERENCE:	SEPTEMBER 9, 2020
ORDER AND REASONS:	AALTO CMJ
DATED:	NOVEMBER 12, 2020

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