Toronto Law Journal

Rights of first refusal – are they single use?

Carrie Ritchie, Partner, Ritchie Smyth Lawyers

A right of first refusal ("**ROFR**") is a right that is granted to a party which typically provides the grantee the right to match a third-party offer from an arm's-length party for the acquisition of real or personal property, such as an interest in land or shares in company. In the real property context, a high-value tenant or neighbouring landowner may be able to negotiate a ROFR for the purchase of an adjoining property or a property they lease. In the corporate context, shareholders in a corporation may grant reciprocal ROFR rights in a shareholders' agreement. In both cases, the general principle is the same. If the grantor of the ROFR receives a bona fide offer from an arm's-length third party, there arises an obligation to notify the ROFR holder of the offer and provide them with the opportunity to match the third-party offer within a specified time frame.

In the case of *McMullen v Dilawri Property Holdings Ltd.*,[1] the Ontario Superior Court confirmed that after a ROFR is exercised, the common law rule prevails and the ROFR is spent after its first use, where proper language to the contrary is not provided.[2] This case serves as a cautionary tale for both real estate and business lawyers in drafting ROFRs. Careful consideration as to the terms under which these rights may be extinguished or revived is required.

ROFRs in Context of the Sale of a Corporation

ROFRs appear often in the context of shareholders' agreements. Minority or other equally participating shareholders may hold the right to match those third-party offers. This typically takes two forms: (1) an 'all or nothing' approach where the ROFR holder must buy all of the shares of the selling shareholder or none at all; (2) the ROFR holder has an option to purchase a particular amount or proportion of the shares being sold, or a 'stub' portion of shares. From the perspective of a third-party arm's-length buyer who is looking to acquire a majority stake in a corporation, a ROFR that provides for the purchase of a stub portion of the shares may be even more unattractive than an all or nothing ROFR, given that it does not allow for them to complete the deal on their desired terms, through no fault of their own.

Where a shareholder is looking to sell their shares and exit a corporation, the presence of a ROFR may act as a hindrance in the completion of the sale, as many third-party buyers do not wish to proceed with a due diligence process and putting together an offer, to only lose the opportunity to purchase to an existing shareholder, who only needs to match the terms of their

---

[1] *McMullen v Dilawri Property Holdings Ltd*, 2023 ONSC 599 [hereinafter *McMullen*].
[2] *Ibid* at para. 22.

offer.[3] The consequence of the presence of a ROFR can often mean that the asset, whether it is shares in a corporation or real estate, is less liquid than where no ROFR is present.[4]

ROFRs and the *Land Titles Act*

Similar to the sale of shares in a corporation, the presence of a ROFR for a property can hinder its saleability and make the property less attractive to potential purchasers. While in the corporate context the shareholders' agreement is a likely place to look for ROFRs in due diligence, in real estate, ROFRs can be registered directly on title to the property with the Land Registry Office.

Unlike an option to purchase or a right to repurchase, a ROFR does not immediately create an interest in land.[5] Instead, a ROFR is first a contractual agreement that has the potential to later create an interest in land.[6] The Ontario Court of Appeal, in *Benzie v. Hania*, considered what constituted valid consideration for a ROFR as well as whether a ROFR qualified as a registerable interest under section 71 of the *Land Titles Act*.[7] The Court of Appeal found that a ROFR's potential to become a future interest in land was enough to allow for its registration on title, despite the interest in land not being crystallized until the ROFR converts into the option to purchase, which occurs after the terms of the exercising of ROFR have been met.[8] Prior to the Court of Appeal opining on the registration of ROFR rights on title, the Director of Titles specifically allowed for the registration of an ROFR through the registration of a Notice pursuant to section 71 of the *Land Titles Act* (Ontario), as an "unregistered estate, right, interest or equity in land".[9] Further instructions on the registration of a Notice of Right of First Refusal can be found in Bulletin 96001 and the Electronic Registration Procedures Guide.[10]

The deletion of a registered ROFR right is done by way of an Application General.[11] In order to delete the ROFR from title, the right must first be expired. In *McMullen*, the court considered whether the ROFR was expired and therefore, if application to delete the ROFR could be granted.

---

[3] Donald West, *Business Acquisition Agreements: An Annotated Guide*, 2nd ed (Canada Law Book, 2011) at 163.
[4] *Ibid* at 164.
[5] Paul M Perell, "Options, Rights of Repurchase and Rights of First Refusal as Contracts and as Interests in Land" (1991) 70-1 Canadian Bar Review 1, 1991 CanLIIDocs 197, <https://canlii.ca/t/skp5>, retrieved on 2023-11-22.
[6] *Ibid*.
[7] *Benzie v Hania*, 2012 ONCA 766 (CanLII), <https://canlii.ca/t/ftq88>, retrieved on 2023-11-22; *Land Titles Act*, RSO 1990, c L5, s 71.
[8] *Ibid* at para 67.
[9] Ontario, Ministry of Government and Consumer Services, *Electronic Registration Procedures Guide* (v 12, December 2017) at 109 online: https://www.teraview.ca/wp-content/uploads/2018/02/ERPG-V12-2017-Final-English-AODA-.pdf.
[10] Ontario, Ministry of Consumer and Commercial Relations: Registrations Division Real Property Branch, *Notice of under Section 71*, Bulletin 96001 (10 July 1996) online: https://files.ontario.ca/notices_under_section_71_land_titles_act_-_1996.pdf; *Ibid*.
[11] Ontario, *supra* note 9 at 105.

McMullen v Dilawri Property Holdings Ltd.

Prior to hearing of the application, the Ontario Superior Court heard a motion for the production of the Agreement of Purchase and Sale in December of 2022, which was denied.[12] The application was then heard on the 20th of January 2023.

Ms. McMullen, the applicant and property holder, was seeking an order to delete the ROFR from title to the property that was in favour of the respondent Dilawri Property Holdings Ltd. Ms. McMullen granted the ROFR as part of a transaction where three parcels of land were sold to Dilawri and Ms. McMullen retained a fourth adjacent parcel. Ms. McMullen entered into an agreement of purchase and sale with Glenview Properties for the property subject to the ROFR. Dilawri provided notice to Ms. McMullen within the requisite 5-day notice period, in accordance with the ROFR, to exercise its right and purchase the parcel of land.[13]

Ms. McMullen and Dilawri then entered into a conditional agreement of purchase and sale, with Dilawri having a period to complete its due diligence to satisfy itself as to the feasibility to develop the property.[14] Dilawri failed to satisfy itself within the required timeframe and sought an extension from Ms. McMullen for the conditional period, which she declined, thus terminating the transaction. Ms. McMullen then entered into an agreement of purchase and sale for the property the next day with a third party. This new agreement was not served on Dilawri, who argued that following the termination of its agreement with Ms. McMullen, the ROFR continued, and it should have been provided with notice of the new offer, as per the terms of the original ROFR. Ms. McMullen took the position that the ROFR was terminated when it was originally exercised by Dilawri pursuant to the first agreement.[15]

In the decision, the court confirmed the status of the common law, as set out in *Canada Deposit Insurance Corp. v. Canadian Commercial Bank*,[16] whereby, if there is a bona fide third-party purchase and proper notice is provided to the ROFR holder, a ROFR is extinguished if the ROFR holder:

1. exercises their right to purchase but “later declines to purchase the property”;[17] or
2. does not exercise their right to purchase.

The agreement between the parties, however, included wording that if the transaction contemplated by the arm’s-length offer was “…not be completed for any reason, this Right of First Refusal shall be reinstated.”[18] As the court states, the main issue is whether the ROFR is

[12] *McMullen v Dilawri Property Holdings Ltd*, 2022 ONSC 7182.
[13] *McMullen*, *supra* note 1 at para 3.
[14] *Ibid* at para 4.
[15] *Ibid* at para 5.
[16] *Canada Deposit Insurance Corp v Canadian Commercial Bank* (1992), 1992 CanLII 6109 (AB KB), 89 DLR (4th)168 (Alta QB).
[17] *McMullen*, *supra* note 1 at para 9.
[18] *Ibid* at para 14.

reinstated when the ROFR notice is properly delivered and the buyer does provide a notice of intention to purchase the property.[19]

Ultimately the court sided with Ms. McMullen in holding that where the ROFR contractual right is silent, the common law prevails. In this case, the ROFR right did not specify that the right would be revived in a circumstance where notice has been properly delivered, the intention to purchase has been exercised, but the transaction failed to be completed by the purchaser. As this circumstance was not expressly addressed, the ROFR right was extinguished pursuant to existing common law principles.[20]

Conclusion

Following *McMullen*, lawyers acting in both the real estate and corporate law context should exercise care in drafting to ensure that any ROFR right that is being granted reflects the intentions of the parties and covers all circumstances where the right is to be revived. If there is a wish for the renewal of the ROFR following its exercising, lawyers should take particular care to avoid its extinguishment, as affirmed in *McMullen*.

[19] *Ibid* at para 15.
[20] *Ibid* at para 22.

Toronto Law Journal

Contemplating Probate of Wills Generated by Artificial Intelligence

Suzana Popovic-Montag, Managing Partner, Hull & Hull LLP

Practitioners are privy to a new era as artificial intelligence (“**AI**”) begins to reshape the practice of law. So far, Canadian courts have responded to this technological innovation with caution. Courts in Manitoba and the Yukon have issued practice directives mandating disclosure of the use of AI tools in the preparation of court submissions,[1] while courts in Alberta and Quebec have issued notices urging “practitioners and litigants to exercise caution” when utilizing AI for legal research and analysis.[2]

For the wills and estates bar, AI could have a broader impact on practice than being used for legal research or court briefs. In the days to come, it seems inevitable that wills drafted by generative AI programs like ChatGPT will be submitted to probate. Such applications are plausible even now, since AI programs can already generate wills.[3] In light of the foregoing, this article considers whether wills generated by AI, subsequently referred to as AI-wills, could be probated in Ontario, and the circumstances under which the dispensing power could be used to validate non-compliant AI-wills.

Could an AI-will be admitted to probate?

Currently it appears that an AI-will could be probated in Ontario if it is printed out and executed in compliance with section 4 of the *Succession Law Reform Act* (the “***SLRA***”),[4] meaning that the testator signed the will in the presence of two attesting witnesses.

---

[1] (MB) Court of King’s Bench, “Practice Direction Re: Use of Artificial Intelligence in Court Submissions” (23 June 2023), online: <https://www.manitobacourts.mb.ca/site/assets/files/2045/practice_direction_-_use_of_artificial_intelligence_in_court_submissions.pdf>; (YK) Supreme Court, “Practice Direction General-29 *Use of Artificial Intelligence*” (26 June 2023), online: <https://www.yukoncourts.ca/sites/default/files/2023-06/GENERAL-29 Use of AI.pdf>.

[2] (AB) Court of Appeal of Alberta, Court of King’s Bench of Alberta, Alberta Court of Justice, “Notice to the Public and Profession: Ensuring the Integrity of Court Submissions When Using Large Language Models” (6 October 2023), online: <https://albertacourts.ca/kb/resources/announcements/notice-to-the-profession-public---use-of-ai-in-citations-submissions>; (QC) Superior Court of Quebec, “Notice to the Profession and Public: Integrity of Court Submissions When Using Large Language Models” (24 October 2023), online: <https://coursuperieureduquebec.ca/fileadmin/cour-superieure/Communiques_and_Directives/Montreal/Avis_a_la_Communite_juridique-Utilisation_intelligence_artificielle_EN.pdf>.

[3] See James Peacock, “An AI Wrote My Will. I’m an Estate Lawyer. Goodbye Career.” After Your Time (17 April 2023), online: <https://afteryourtime.com/chatgpt-ai-generated-will/>. Also see Tolou Mahani, “The impact of ChatGPT on estate planning” Law 360 Canada (28 March 2023), online: <https://www.law360.ca/articles/45248/the-impact-of-chatgpt-on-estate-planning-tolou-mahani?article_related_content=1>.

[4] *Succession Law Reform Act*, R.S.O. 1990, c S.26, s. 4 [*SLRA*].

Probate cannot be granted for an AI-will executed electronically, even if a testator tries to comply with the formalities of execution in the *SLRA* by using electronic signatures.[5] In the legislation, the definition of the term "will" does not include electronic wills, and subsection 21.1(2) expressly confirms that the court cannot validate electronic wills.[6]

If there are concerns that an AI-will is invalid on other grounds, such as lack of testamentary capacity, lack of knowledge and approval of the AI-will's contents, or undue influence, to name a few, the court may require that instrument to be proven in solemn form before it can be submitted to probate.[7]

Could the dispensing power be used to validate a non-compliant AI-will?

If a printout of an AI-will is not executed in compliance with the *SLRA*, it may still be possible to admit that instrument to probate, as long as the court grants an order declaring it valid and fully effective as a will under subsection 21.1(1) of the *SLRA*.[8] This relief ought to be available as long as at least three conditions are met:

1. The AI-will is signed by the testator. We do not yet know whether a non-compliant instrument that is completely devoid of execution can be saved in Ontario using the dispensing power.[9]

2. The AI-will is authentic.[10]

3. The AI-will expresses the deceased's "testamentary intentions", being "a deliberate or fixed and final expression of intention as to the disposal of the deceased's property on death."[11] Factors that may be used to assess whether a document expresses testamentary intent "include the presence of the deceased's signature, the deceased's handwriting, witness signatures, revocation of previous wills, funeral arrangements, specific bequests and the title of the document".[12]

While extrinsic evidence is typically admissible when the court is asked to utilize the dispensing power,[13] obtaining extrinsic evidence to validate a non-compliant AI-will could prove to be challenging, particularly evidence from the program which generated the will. Depending on the circumstances, there may be no need to obtain such evidence – for example, if the deceased

---

5 *Ibid.*

6 *Ibid.*, ss. 1(1), 21.1(2).

7 See *Neuberger v. York*, 2016 ONCA 191.

8 *SLRA*, *supra* note 4, s. 21.1(1).

9 *Vojska v. Ostrowski*, 2023 ONSC 3894 [*Vojska*] at para. 22.

10 *Ibid.* at para. 21.

11 *Vojska*, *ibid.*, citing *Estate of Young*, 2015 BCSC 182 [*Young*] at para. 35. See also *White v. White*, 2023 ONSC 3740 [*White*] at para. 18.

12 *Young*, *ibid.* at para. 36. For a more exhaustive list of factors, see *Meunier Estate*, 2022 ABQB 83 at para. 50.

13 *Hadley Estate (Re)*, 2017 BCCA 311 at para. 40.

kept records of communications with the AI-program used to generate the will, or discussed the AI-will with friends and family, further evidence may not be needed.[14] However, if evidence related to the deceased's communications with the program when the will was generated would be useful, a number of obstacles could stand in the way of obtaining it, such as:

- lack of evidence that the will was generated by AI. This information may not be available if the will is not marked in some way with the name of the AI program. Currently, there is no legal requirement to mark documents generated by AI, nor is the law in Canada expected to include such a requirement in the immediate future,[15] although a requirement to mark AI-generated documents is being considered in the United States;[16]
- lack of evidence as to which program generated the AI-will; and
- obtaining a court order for disclosure from the AI program.

The court may be disinclined to grant an order for third-party disclosure before an application is granted under section 21.1 of the *SLRA*, particularly if an alleged testamentary instrument has not yet been uncovered, or an instrument only appears to be a draft.[17] The courts also have not yet answered a relevant question – whether the minimum evidentiary threshold, which must be satisfied for will challenges before disclosure may be ordered, also applies when an applicant seeks disclosure prior to an application under section 21.1 of the *SLRA*.[18] If so, meeting the minimal evidentiary threshold would be yet another hurdle for the applicant to satisfy. The approach that the court takes to ordering disclosure from an AI-program may also depend on whether the deceased person would have had a reasonable expectation of privacy in communications with that AI-program. In comparison, the disclosure typically sought for will challenges, such as medical records and legal files, is privileged.[19]

Lastly, if the desired disclosure exists and is provided by an AI-program, another question to consider is how to put that evidence before the court. Presumably, the requisite affidavit could be sworn by the applicant seeking to validate the AI-will or an individual associated with the generative AI-program, with material provided by the AI-program attached as exhibits. It seems likely, but is not certain, that information generated by an AI-program could be admissible

---

[14] See, for example, *McCarthy Estate (Re)*, 2021 ABCA 403.

[15] In June 2022, the federal government tabled the *Artificial Intelligence and Data Act* as part of Bill C-27, the *Digital Charter Implementation Act*, 2022, but does not expect to implement the legislation prior 2025; see Government of Canada, "The Artificial Intelligence and Data Act (AIDA) – Companion document", online: <https://ised-isde.canada.ca/site/innovation-better-canada/en/artificial-intelligence-and-data-act-aida-companion-document>.

[16] In Massachusetts, legislation has been proposed that would require large-scale generative AI models "to generate all text with a distinctive watermark" to identify outputs generated by those models. See 2023 MA S 31, "An act drafted with the help of ChatGPT to regulate generative artificial intelligence models like ChatGPT", s. 3(2).

[17] See *White*, *supra* note 11.

[18] *Ibid.* at para. 37.

[19] See *White*, *ibid.* at para. 23, where Justice Myers expressed concern about rummaging through a deceased person's "most confidential material" to support an application under s. 21.1 of the *SLRA*.

under the principled approach to the hearsay rule, as long as it satisfies two requirements – necessity and reliability.[20] Depending on how the data was stored and security measures taken to protect it, however, its reliability may be called into question, in which case the court could refuse to admit that evidence when determining whether to validate an AI-will using the dispensing power.

Conclusion

Based on the current law in Ontario, it appears to be possible to probate an AI-will executed in compliance with the *SLRA*. However, applying to validate a non-compliant AI-will could be challenging, particularly if the applicant wishes to utilize extrinsic evidence from the AI program in support of the application. It will be interesting to see how the law changes in the months and years ahead in response to technological innovation like AI.

---

[20] See *Decore Estate*, 2009 ABQB 440 at paras. 9-10.

The Dough(Nut) Does Not Rise (Nowhere Nearly Enough) for The Franchisor

David Kornhauser (MBA, LLB), Partner, & Ian Harbell, Student-at-Law
Loopstra Nixon, LLP

Introduction

Coffee Time Corp. v 1685247 Ontario Ltd.,[1] involved a motion for summary judgement by Coffee Time (2015) Corp. (the "**Franchisor**") for amounts owing by 1685247 Ontario Limited, and its principal (collectively, the "**Franchisee**") pursuant to a franchise agreement (the "**Franchise Agreement**") and sublease (the "**Sublease**"). Although the Court granted summary judgement in favour of the Franchisor, it was for an amount substantially less than what was being claimed.

Background Facts

The Franchisee had executed the Franchise Agreement and Sublease with Coffee Time Donuts Incorporated ("**CTDI**"). CTDI assigned the Franchise Agreement and Sublease to the Franchisor. No formal notice of the assignment was provided to the Franchisee. The Franchise Agreement required the Franchisee to pay royalties and advertising contributions (collectively the "**Franchise Fees**") in consideration for the right to operate a "Coffee Time Donuts" business (the "**Franchised Business**"). The Sublease required the Franchisee to pay rent.

The Franchisor exercised the "Fourth Extension Term" referred to in a certain Lease Amending Agreement dated April 20, 2017 (the "**Lease**") between the Franchisor and the landlord, with the result being that the term for the head lease was extended to August 31, 2022 (the "**Extension Term**"). Minimum rent per month for the Extension Term commencing September 1, 2017, was reduced from $3,262.60 to $1,750.00.

The Franchise Agreement and Sublease expired on August 30, 2017. Despite the expiry of both agreements, the Franchisee continued to operate the Franchised Business. The Franchisee held itself out as a "Coffee Time" restaurant, occupying the subleased premises and paying rent, but did not, however, pay the Franchise Fees. In August 2018, the Franchisor terminated the Franchise Agreement and Sublease due in part to the Franchisee being in default of payment of the Franchise Fees. The Franchisor took possession of the subleased premises at the same time. The Franchise Agreement stated that amounts in arrears accrued interest at 24% per annum. After the termination of the Franchisee, the Franchisor, exercising its early termination right, terminated the head effective November 30, 2018.

[1] *Coffee Time Corp v 1685247 Ontario Ltd.*, 2023 ONSC 3353 [*Coffee Time Corp*].

The Franchisor's Position

The Franchisor claimed $241,382.18, which was comprised of the following amounts:

(a) Franchise Fees of $70,000.00. This was based on an estimate by the Franchisor since the Franchisee had failed to remit royalty reports on the Franchisee's sales at the Franchised Business.[2]

(b) Rent of $51,417.78 (based on $7,287.82/month for March to August 2018 and partial arrears for January and February 2018) ("**Rent**"). The Franchisor acknowledged that this amount must be reduced to account for the rent deposit of $6,405.68. According to the Franchisor's evidence, the Franchisee had a zero-rent balance as of June 30, 2017, and that the amount owing was based on 14 months rent at $7,287.82/month (including HST). Further, the Franchisor asserted that the *Real Property Limitations Act ("***RPLA***")*, provides for a six-year limitation period for claims for payment of rent from when the rent has become due or any acknowledgment that rent is due.

(c) Accelerated rent for the period from September 1, 2018, to November 1, 2018, in the amount of $21,863.46, plus HST for a total of $24,705.71.

(d) Interest at 24% per annum from the due date of each payment to May 1, 2023. In respect of interest on the rent arrears, the Franchisor argued that the Sublease provides that the Franchisee would pay the Franchise Fees as rent reserved at the times and in the manner provided for in the Franchise Agreement, and that the foregoing has the effect of making the interest rate set out in the Franchise Agreement applicable to rent arrears.

The Franchisee's Position

In reply, the Franchisee asserted that:

(a) The Franchisor's claim for Franchise Fees was excessive and was not based on the actual sales upon which the Franchise Fees were to be calculated.

(b) The Franchisor's claims for Rent under the Sublease exceeded the amount properly due.

(c) The Franchisor's claims for accelerated rent were not owing.

[2] This amount, nor the rationale for the calculation, does not appear in the decision. It was obtained by the author based on a conversation with the Franchisor's counsel since the decision itself does not set forth how the initial claim by the Franchisor was calculated.

(d) The Franchisor should deduct the value of inventory, furniture and equipment left behind by the Franchisee.

(e) Under the *Limitations Act, 2002,* the Franchisor's claims for Franchise Fees, Rent and accelerated rent were statute barred for the period after November 21, 2017.

(f) Pursuant to s. 53 of the *Conveyancing and Law of Property Act*, absent notice, the assignments are ineffective as against the Defendants.

The Decision

Citing *Coffee Time Donuts Incorporated v. 2197938 Ontario Inc.*,[3] the court first established that the Franchise Agreement continued after the expiry of its written terms due to the conduct of the parties.

1. Although the court found that CTDI was not joined as a party to this action as required by rule 5.03(3) of the *Rules of Civil Procedure,*[4] it was satisfied that the failure to join CTDI as a party does not prejudice the Franchisee and relieved the Franchisor against the requirement of joinder as permitted by rule 5.03(6).

2. During the hearing, the Franchisor accepted that the amount owing for Franchise Fees was $4,432.29.

3. The Franchisor's claim for Rent, by virtue of suspension of the limitation period under the *Emergency Management and Civil Protection Act*, and accelerated rent by virtue of the RPLA, is not statute barred.

4. The Franchisee was not informed of the rent reduction. The Franchisor continued to claim arrears based on monthly rental of $7,287.82 even though total monthly rent was only $5,578.90 (including HST) after August 2017.

5. At the time of the termination of the Sublease, the Franchisee was a month-to-month tenant and therefore did not have an obligation to pay rent for any fixed remaining term. There were no further rentals due under the Sublease and no remaining term. Therefore, the Franchisor was not entitled to recover accelerated rent from the Franchisee.

6. In respect of interest on Rent, the court stated that although the Sublease had the effect of making the Franchise Fees payable as rent under the Sublease, it did not provide that rent arrears are payable under the Franchise Agreement as Franchise Fees, and therefore could not attract interest at 24%.

[3] *Coffee Time Donuts Incorporated v. 2197938 Ontario Inc.*, 2022 ONCA 436.
[4] The court quoted from Landmark Vehicle Leasing Corp. v. Mister Twister Inc., 2015 ONCA 545, at para. 14, stating that the joinder requirement is intended to guard against a possible second action by the assignor and to permit the debtor to pursue any remedies it may have against the assignor without initiating another action.

7. Interest is payable on the outstanding Franchise Fees ($4,432.29) at the rate of 24% per annum in accordance with the Franchise Agreement.

8. The court, finding no evidence on the value to be attributed to Franchisee's inventory, furniture and equipment, did not find that the Franchisee should be given credit for same.

Conclusion and Key Practice Tips

Although this appears to be a very straightforward decision, there are a multitude of practice tips and takeaways that emanate from this decision.

The Franchisee was self-represented, which means that he was either very knowledgeable about the law or received some assistance and leeway from the judge. If the latter, perhaps one explanation may be due to the Franchisor's attempt to claim the higher amount for Rent than was actually paid to the landlord. This attempt was not, in the authors' view, consistent with their statutory duty of fair dealing[5] and common law duty of honesty in the performance of contractual relations,[6] though we do not know what influence, if any, this had on the judge's overall decision (we however note that the Franchisor may have been lucky not to have damages awarded against it for said breaches).

Further, because of compounding of interest at 24%, the claim for Rent, together with the claim for Franchise Fees and for accelerated rent, created a higher damage claim than was realistic. A more honest assessment by the Franchisor of its legal position may have resulted in a settlement at an earlier stage and without the expenditure of the legal fees needed for a summary judgement motion. Finally, we note that the judge did permit the claim to proceed despite that CTDI was not joined as a party, a decision which if it had been averse to the Franchisor, could have had a significantly disastrous effect on the entire case.

[5] *Arthur Wishart Act (Franchise Disclosure), 2000*, 2000, c. 3, s.3(1).
[6] *Bhasin v. Hrynew*, 2014 SCC 71.

Toronto Law Journal

Federal Court Weighs in on Comparative Advertising Claims

William Audet, Wynnie Chan and R. Scott MacKendrick, Bereskin & Parr LLP

A notable decision of the Federal Court of Canada in *Energizer Brands, LLC v. Gillette Company*, 2023 FC 804 has dealt with the use of comparative performance claim labels and stickers on product packaging. It considered whether the claims made depreciated trademark goodwill, and, as well, were deceptive, false or misleading in violation of certain unfair competition provisions of the *Trademarks Act* as well as of the *Competition Act*.

Justice Fuhrer of the Federal Court found that certain statements on Duracell's packaging using Energizer's ENERGIZER and ENERGIZER MAX trademarks were likely to depreciate Energizer's goodwill in its registered trademarks, and thus awarded Energizer an injunction against Duracell prohibiting the use of Energizer's marks, together with damages in the amount of $179,000. Other statements not using the marks, but using the "bunny brand", were not found to depreciate, owing to a lack of evidence of consumer reaction to the "bunny brand" use.

Background

The dispute between Energizer (the owner of the ENERGIZER marks) and Duracell (the Gillette Company, the owner of the DURACELL mark) centered around certain comparative advertising claims found on labels and stickers affixed to DURACELL battery packaging that bore the statements: "15% LONGER LASTING vs. Energizer"; "UP TO 15% LONGER LASTING vs. ENERGIZER MAX"; "Up To 20% LONGER LASTING vs. the bunny brand"; and "Up to 15% longer lasting vs. the next leading competitive brand".

Section 22 of the *Trademarks Act*[1] provides that "no person shall use a trademark registered by another person in a manner that is likely to have the effect of depreciating the value of the goodwill attaching thereto." To succeed in a claim for depreciation of goodwill, a plaintiff must meet the following four-part conjunctive test as described by the Supreme Court of Canada in *Veuve Clicquot Ponsardin v. Boutiques Cliquot Ltée*:[2]

1. its registered trademark was used by the defendant with goods or services, regardless of whether they are competitive with those of the plaintiff;

2. its registered trademark is sufficiently well known to have a significant degree of goodwill attached to it, although there is no requirement that the trademark be well known or famous;

[1] R.S.C., 1985, c. T-13.
[2] *Veuve Clicquot Ponsardin v. Boutiques Cliquot Ltée*, 2006 SCC 23 (CanLII), [2006] 1 SCR 824, at para 46.

3. the defendant's use of the trademark was likely to have an effect on that goodwill (in other words, there was a linkage); and

4. the likely effect is to depreciate or cause damage to the value of the goodwill.

In this case, satisfying the second test element, both parties accepted that the ENERGIZER trademarks were well known, if not famous and significant goodwill resided in them.

Justice Fuhrer noted that the "use" as required by section 22 was aligned with the manner of use contemplated in section 4 of the *Trademarks Act*. However, such use does not necessarily have to be employed for the purpose of distinguishing the owner's products or services from others (i.e., "non-confusing use").[3]

Duracell's display of the registered trademarks ENERGIZER and ENERGIZER MAX on the sticker labels of Duracell batteries constituted section 4 non-confusing use. As to whether the use was likely to have an effect on the goodwill and to depreciate or cause damage to its value, Justice Fuhrer noted that the "purpose of putting the Energizer Trademarks on the packaging was to promote the sale of DURACELL batteries by suggesting to consumers that they would get a better result using Duracell's batteries in the hope of getting a part of the market enjoyed by Energizer".[4] This was a clear example of a trademark owner's trademark being "bandied" about, resulting in lost control for the owner and lesser distinctiveness.

Furthermore, in *Clairol International Corp. et al v. Thomas Supply and Equipment Co*, the Exchequer Court of Canada had already established that damage to goodwill can occur through the reduction of the esteem in which a registered trademark is held, arising from the direct persuasion and enticing of a company's customers who could otherwise be expected to buy or continue to buy the registered trademark owner's products if it wasn't for the third-party statement mentioning the registered trademark.[5]

Following the *Clairol* decision, Justice Fuhrer found Duracell's use of the comparative advertising stickers with the ENERGIZER marks depreciated the goodwill of Energizer's trademarks for the express purpose of taking away custom enjoyed by Energizer and persisted in it.[6]

With respect to the comparative performance advertising claim "Up To 20% LONGER LASTING vs. the bunny brand", Justice Fuhrer found that while the phrase "the bunny brand" was capable of evoking an image of a bunny that functions as a trademark (that is, Energizer's iconic ENERGIZER bunny, subject to several trademark registrations),[7] hurried consumers were

---

[3] *Energizer Brands, LLC v. Gillette Company*, 2023 FC 804 at para 89 [*Energizer Brands*].
[4] *Ibid*, at para 143.
[5] *Clairol International Corp. et al v. Thomas Supply and Equipment Co. et al*, 1968 CanLII 1280, [1968] 2 Ex CR 552 (Ex. Ct.) [*Clairol*].
[6] *Energizer Brands, supra* note 3, at para 144, referring to *Clairol* at 576.
[7] *Ibid*, at para 148.

unlikely to pause long enough and think of Energizer's character when seeing this phrase. Consumers had to take an extra mental step or steps when confronted with the indirect phrase "the bunny brand", as compared to the more direct trademarks, ENERGIZER and ENERGIZER MAX.[8] In the absence of any primary data or survey evidence of consumer reaction to Duracell's sticker mentioning the bunny brand[9], Justice Fuhrer was unable to find a requisite link to support a section 22 claim. This finding suggests that survey evidence might be highly valuable to establish linkage, particularly in situations where registered trademarks are not directly used and/or shown in comparative advertising claims.

False or Misleading Claims

With regard to whether the claims were deceptive, false or misleading, Justice Fuhrer found that the comparative advertising claims complied with the unfair competition (deceptive and false or misleading) provisions of the *Trademarks Act*, as well as section 52(1) of the *Competition Act*.[10]

Subsection 52(1) provides that "[n]o person shall, for the purpose of promoting … the supply or use of a product … knowingly or recklessly make a representation to the public that is false or misleading in a material respect." Justice Fuhrer adopted principles earlier articulated by the Supreme Court of Nova Scotia for determining what is false or misleading.[11] Justice Fuhrer also applied the findings of the Supreme Court of Canada on the general impression of an advertisement.[12]

The principles included that the general impression of the advertisement must be determined, in both its literal meaning and its context, the misleading advertising must be material in that it would have a pertinent, germane or essential effect upon a consumer's buying decision, and even advertisements which "push the bounds of what is fair" are not necessarily misleading in a material way.

Given that no primary data or a consumer survey about the general impression of the sticker claims were provided in evidence,[13] Justice Fuhrer relied on a common-sense approach and considered the battery testing evidence presented by both parties in assessing the performance claims, while noting that Energizer's battery testing expert did not have access to Energizer's testing data.

With respect to Duracell's sticker claiming "15% LONGER LASTING vs. Energizer on size 10, 13, and 312" for hearing aid batteries, Justice Fuhrer concluded that the lack of a disclaimer on

[8] *Ibid*, at paras 155 and 156.
[9] *Ibid*, at para 157.
[10] R.S.C., 1985, c. C-34.
[11] *Distrimedic Inc. v. Dispill Inc.*, 2013 FC 1043 at para 262, citing *Maritime Travel Inc v Go Travel Direct.Com Inc* (2008), 66 CPR (4th) 61, 2008 NSSC 163 at para 39, aff'd 2009 NSCA 42.
[12] *Richard v. Time Inc.*, 2012 SCC 8 at paras 57, 60, and 66-67.
[13] *Energizer Brands, supra* note 3, at para 184.

the sticker was significant in assessing whether it was misleading or unfair.[14] While Energizer argued the claim was untrue, Duracell's evidence suggested a reasonable basis for the claim; Justice Fuhrer accordingly did not find the sticker *per se* false or misleading in a material way,[15] particularly given the absence of any increased Duracell sales due to the sticker alone.

The literal claims of the remaining stickers were held by Justice Fuhrer to be clear and represented that DURACELL batteries would last "up to" the stated longevity.[16] The expert evidence presented by Duracell formed a reasonable basis to support the performance claims on the stickers, and thus the claims were not deemed false or misleading in a material respect. Further, the presence of disclaimers such as "up to" and "results vary by device and usage patterns" tempered consumer expectations in the circumstances. As there was a reasonable basis for Duracell to make the performance claims, the claims were not deemed to be false or misleading in a material respect, especially due to the absence of evidence showing a rise in Duracell's sales or lost sales for Energizer as a result of the stickers.

Conclusion

This decision confirms the earlier *Clairol* decision and reinforces that the use of third-party trademarks in comparative advertising claims remains risky in Canada.

From the perspective of a party seeking to compare its products to those of a competitor, it needs to avoid bandying about its competitor's trademarks to minimize risk.

From the perspective of a trademark owner, faced with use - or an evocation - of one of its own trademarks by a competitor, this decision underscores the value of consumer reaction evidence to support allegations of depreciation of goodwill and false or misleading claims.

---

[14] *Ibid*, at para 196.
[15] *Ibid*, at para 202.
[16] *Ibid*, at para 214.