

CANADA / JUDGMENT

Billing v. Precisioneering DKG Corp.

2017 BCSC 1777

COURT

Supreme Court of British Columbia

DECIDED

4 October 2017

Source: bccourts.ca · Research copy typeset by Esheria. Not court-issued or certified.

2017 BCSC 1777 Billing v. Precisioneering DKG Corp.

IN THE SUPREME COURT OF BRITISH COLUMBIA

Citation:

Billing v. Precisioneering DKG Corp.,

2017 BCSC 1777

Date: 20171004

Docket: S153201

Registry: New Westminster

Between:

Martyn Kenneth Billing

Plaintiff

And

Precisioneering DKG Corp.

(previously doing business as Precisioneering Ltd. and Group DKG Corp.) and An-Cor Industrial
Plastics Inc.

(also doing business as An-Cor DKG and An-Cor Manhole Cover Division)

Defendants

And

AIC Advanced Industrial Composites Inc.

Defendant by Counterclaim

Before: The Honourable Mr. Justice Bowden

Reasons for Judgment

Appearing on his own behalf as Plaintiff:

Martyn Billing

Counsel for Defendants:

R. Wu

E. Hatch

Appearing on behalf of Defendant by Counterclaim:

Janna Billing

Place and Date of Trial/Hearing:

New Westminster, B.C.

February 29, 2016; March 1-4, 2016; March 7-11, 2016; March 14-18, 2016; October 11-14, 2016; May 31, 2017; and June 1, 2017

Place and Date of Judgment:

New Westminster, B.C.

October 4, 2017

Introduction

- [1] The plaintiff alleges that the defendants were in breach of contract by failing to pay royalties in respect of the granting by the plaintiff to the defendants of the exclusive rights to manufacture and sell a manhole cover designed by the plaintiff. If the court does not find a contract between the parties, the plaintiff seeks compensation on the basis that the defendants have been unjustly enriched.
- [2] The defendants' response is that, while they entered into a contract with the plaintiff, the plaintiff breached the contract by failing to provide support to the defendants in its efforts to market the product and to assist in the development of new products based on the plaintiff's design and failing to transfer ownership of vault lid designs to the defendants. The defendants also say that some of the work performed by the plaintiff falls within the definition of the "practice of professional engineering" in the Engineers and Geoscientists Act, RSBC, 1996 Chapter 116.
- [3] The defendants also allege that after the formation of the contract between the parties, they learned that the plaintiff had made certain negligent or fraudulent misrepresentations to the defendants that induced them to enter the contract. As a result, the defendants have counterclaimed against AIC Advanced Industrial Composites Inc. ("AIC"), for damages.

Background

- [4] The plaintiff is 73 years of age. He immigrated to Canada from England in 1966 and attended U.B.C. as a mature student. He graduated with a Masters Degree in physics at the age of 34. He then followed a career path that included employment at the University of Alberta in the electrical engineering department and work in the field of computer assisted design. Later he was employed in the School of Engineering Physics in the Faculty of Applied Science at Simon Fraser University eventually becoming the director of the Science Technical Centre at S.F.U. He did not obtain an engineering degree.
- [5] Since 1996 the plaintiff has worked as a consultant for AIC, a private company controlled by his wife, Janna Billing. Ms. Billing has no engineering or scientific background but was experienced in the production of fiberglass products for trucks which she had gained while working in her father's business.
- [6] Up until 2010, AIC manufactured and sold about 35,000 patented composite or fiberglass vault lids to B.C. Hydro from AIC's 10,000 square foot manufacturing facility with 20 employees. The lids were used by B.C. Hydro to cover underground electrical installations. In 2010 BC Hydro changed its specifications for vault lids and AIC chose not to continue supplying them to BC Hydro.
- [7] Evolving out of the manufacture of vault lids, in 2005 the plaintiff began developing composite manhole covers and collars. He considered that the demand for composite manhole covers was increasing because of problems associated with iron manhole covers including theft, corrosion and back injuries resulting from lifting them. With excess capacity in their plant and no contract with BC Hydro to provide vault lid covers, the plaintiff and Ms. Billing decided to proceed further with the production of manhole covers.
- [8] Early in 2011, the plaintiff found an advertisement by the defendant, Precisioneering DKG Corp. ("DKG"), on the internet expressing an interest in expanding their fiberglass business. On February 16, 2011, the plaintiff wrote to DKG on AIC letterhead indicating that he was seeking a buyer for the equipment used for the manufacture of manhole covers including an aluminum mould for 24" and 30" covers, special tools, a pumping system, CNC system and a test press. He also offered to transfer the C.A.D. design files for the moulds and other equipment, C.N.C. files for the moulds, a manhole cover top design together with a list of parts and suppliers.
- [9] While the letter of February 16, 2011 mentions the background of AIC in relation to the provision of vault lid covers to B.C. Hydro and how that had ended, the offer in the letter clearly relates to equipment and technology used only for the production of manhole covers.
- [10] An exchange of emails then ensued between the chief executive officer of DKG, David Richardson, and the plaintiff regarding the proposal in the plaintiff's letter. The subject line in the emails refers to "Partnering Opportunities - manhole cover units".

- [11] In an email to Mr. Richardson on February 28, 2011, the plaintiff summarizes what would be included in the equipment offered for sale and mentions that he could work with DKG to upgrade the design of vault lids to meet B.C. Hydro's new requirements. While not clearly expressed, that email suggests that the vault lid equipment could have been included in what was offered for sale by the plaintiff.
- [12] On March 2, 2011, Mr. Richardson sent an email to other persons who worked at DKG explaining the potential purchase. He refers to it as "a great potential opportunity" but refers only to manhole covers and not vault lids. He also expresses the view that the assets offered for sale appeared to be worth considerably more than the suggested price of \$100,000.
- [13] Early in March 2011, Mr. Richardson met with the plaintiff and Ms. Billing in New Westminster to discuss the purchase and sale of the assets offered for sale. After touring AIC's facilities, the plaintiff and Mr. Richardson discussed the price. They both testified that the price was to be \$100,000 plus a 2% royalty on sales.
- [14] On March 3, 2011, Mr. Richardson emailed the plaintiff requesting the following information:

Testing Reports

BC Hydro approval for your initial design

Review current orders

Financial statements

- [15] On March 8, 2011, the plaintiff responded and sent the documents that Mr. Richardson had requested and more. The information included specifications from BC Hydro regarding vault lid covers and the testing thereof. It also included information regarding the plaintiff's Canadian and U.S. patents for a "Multi-Layer Composite Panel and Method of Making Same". The Canadian patent had lapsed but could be reinstated by September 5, 2011. The U.S. patent would have lapsed on May 3, 2010 unless a fee was paid. There is no evidence that the defendants sought further information regarding the patents. Also included was a list of the assets offered for sale.
- [16] On March 16, 2011, the plaintiff sent an email to Mr. Richardson regarding shipping arrangements for the assets. He also suggested that he would license the intellectual property rights to the defendants and it would be exclusive, " unless the royalty minimum was not achieved."
- [17] On March 28, 2011, Mr. Richardson sent an email to the plaintiff indicating the terms as he understood them which were 7 years of minimum royalties at \$30,000 per year after an upfront payment of \$100,000 plus packaging costs and travel expenses. He also suggested that the minimum royalty for the sixth and seventh year be increased to \$50,000. He wrote that if DKG did not make the minimum payments then the plaintiff would take back the

intellectual property rights. He also indicated that there would be a consulting agreement with the plaintiff. The plaintiff testified that he accepted Mr. Richardson's offer in this email.

[18] On March 30, 2011 the plaintiff sent a draft of an agreement to Mr. Richardson. The plaintiff testified that this was his understanding of the agreement reached between him and Mr. Richardson and that he intended that this would be reviewed by the parties' lawyers before it was signed. The defendant submits that this represents the agreement reached by the parties.

[19] The terms of that draft agreement are as follows:

DRAFT COPY FOR CANADIAN AND US LEGAL CONTRACT(S)

Price

\$50,000 prior to shipment

\$25,000 when shipment is received

\$25,000 after the first product is made

Plus some packaging costs

Plus travel expenses

Plus payments of \$420 per day to Annie for start-up (plus expenses).

Plus royalty payments and consulting fees as outlined below

Intellectual property rights and royalty payments

This agreement provides exclusive access to the intellectual property rights for the products, manufacturing processes, mould designs and website content developed over the period 2004 to 2011 and the new products referred to below.

Royalty payments

2% of the taxes out invoiced amount (existing and new)

Minimum royalty for 24" and 30" sizes

1 October 2012 \$10,000

1 October 2013 \$30,000

1 October 2014 \$30,000

1 October 2015 \$30,000

1 October 2016 \$30,000

1 October 2017 \$30,000

1 October 2018 \$50,000

1 October 2019 \$50,000

Minimum royalty for new sizes and new collars

1 October until October 2019 \$500

New products

New sizes and new collars - product, mould and production engineering design.

The agreement applies to:

H-20 or equivalent performance round manhole covers and collars constructed using glass fibre reinforced composite technology.

Metal collars for the H-20 or equivalent performance round manhole covers constructed using glass fibre reinforced composite technology.

Transfer of the ownership of the intellectual property rights occurs when the final royalty payment is made on 1 Oct 2019.

This agreement expires if the minimum royalty payments are not made.

CONSULTING FEES - hourly rate \$60

FIRST SIX MONTH PERIOD BEGINNING 1 MAY 2011

The consulting work to be done outside the lower mainland of BC covered by the royalty payments

Up to four separate visits of up to 5 working days duration (\$8,400)

The consulting work to be done within the lower mainland of BC and that is covered by the royalty payments

Up to four weeks work on plant design and layout (\$8,400)

The telephone or email support I will provide for the existing products that will be covered by the royalty payments

Up to 20 hours per month (\$1,200/mth -> \$7,200)

SECOND SIX MONTH PERIOD BEGINNING 1 NOV 2011

The consulting work to be done outside the lower mainland of BC covered by the royalty payments

One visit of up to 5 working days duration (\$2,100)

The consulting work to be done within the lower mainland of BC covered by the royalty payments

Up to one weeks [sic] work on plant design and layout (\$2,100)

The telephone or email support I will provide for the existing products that will be covered by the royalty payments

Up to 20 hours per month (\$1,200/mth -> \$7,200)

SUBSEQUENT 12 MONTH PERIODS

The contract for consulting work will be renegotiated on a yearly basis at a mutually agreed rate.

NEW PRODUCTS WITH ROYALTY PAYMENTS

Six month development agreement "with royalties"

The consulting work to be done from within the lower mainland of BC that is covered by royalty payments

Up to eight weeks - 280 hours (\$16,800)

The telephone or email support I will provide for the new products that will be covered by the royalty payments

Up to 20 hours per month (\$1,200/mth -> \$7,200)

I will have the option of forgoing [sic] the royalty payments and not participating or working for fees on the development of a particular product if I feel the likelihood of my generating income from royalties it [sic] is poor.

NEW PRODUCTS WITHOUT ROYALTY PAYMENTS

I can compete for the development of products that do not generate royalty payments for me.

Rate: - \$60/hr or negotiated project fee.

RECORD KEEPING AND INVOICING

EXPENSES

All expenses

[20] The draft of March 30, 2011 reflects the terms proposed by Mr. Richardson in his email of March 28, 2011 and adds some terms regarding consulting. Significantly the plaintiff included the term that, "This agreement expires if the minimum royalty payments are not made", reflecting an earlier suggestion by Mr. Richardson.

[21] In his testimony, the plaintiff said that inclusion of the term regarding the expiration of the agreement if minimum royalties were not paid was a mistake. However, in his Examination for Discovery, (Question 1091 at page 255) he agreed that the agreement was to expire if the minimum royalty payments were not made.

- [22] In the hopes of entering a business relationship with Toronto Hydro, on March 31, 2011, notwithstanding the information that he had received about the assets for sale, the lapsing of the plaintiff's patent in Canada and the fact that a sale had not been consummated, Mr. Richardson sent an email to an engineer at Toronto Hydro, stating that DKG "has recently purchased Advanced Industrial Composites (AIC), who has a patented Composite Manhole Cover & Collar product." That was not true. DKG had not purchased AIC nor, at that time, its assets and the plaintiff's Canadian patent had expired. He then referred to the test results from an engineer at BC Hydro regarding the vault lids and stated that, "The Manhole Covers have higher test results than the Vault Lids because they are smaller and supported around the entire circumference." There is no evidence that the latter information had been provided to him by the plaintiff.
- [23] By truck on April 7, 2011 and April 11, 2011, the plaintiff shipped the machinery and equipment contemplated by the parties to DKG. Ms. Billing then sent an invoice on April 15, 2011 in the name of AIC to Mr. Richardson for machinery for a total price of \$20,000 plus HST of \$2,400. It was paid by the defendant on the same day.
- [24] A second invoice dated April 15, 2011 in the name of "Martyn Billing, M.Sc. - Design Engineer" was sent to Mr. Richardson. The description in the invoice was for the 24" and 30" cover and collar moulds and accessories for a total price of \$80,000 plus HST of \$9,600.
- [25] On April 15, 2011, the defendants paid \$61,600 of the second invoice. \$28,000 of the second invoice was not payable until an event described as the "pumping of composite unit".
- [26] On May 31, 2011, an invoice in the plaintiff's name was sent to Mr. Richardson in the amount of \$25,000 plus HST of \$3,000. The description in the invoice was "The final payment for the manhole cover assets." Another invoice in the plaintiff's name was sent to Mr. Richardson on May 31, 2011 in the amount of \$598.08 described as being for "Two men for two days - \$12.00 hour x 32" and "Packaging materials".
- [27] Mr. Richardson determined that GST was not payable on the last two invoices and paid the amount of \$25,598.08 to the plaintiff on June 6, 2011.
- [28] In the result, the defendant, DKG, paid \$100,000 plus tax to the plaintiff and AIC for the assets purchased.
- [29] On April 21, 2011, Mr. Richardson sent draft copies of contracts prepared by the defendants' lawyers to the plaintiff that Mr. Richardson understood reflected the agreement between the parties.
- [30] The terms as set out in the plaintiff's March 30, 2011 email appear to be reflected in the drafts that Mr. Richardson sent to the plaintiff however they were never signed by the parties.

- [31] Through much of 2012, the plaintiff and Mr. Richardson exchanged emails attempting to either confirm their agreement or change the terms. Nevertheless, the defendants proceeded with the development and sale of manhole covers based on the plaintiff's design and using the moulds purchased from him.
- [32] Merrill Arthur, a mechanical engineer employed by the defendant An-Cor Industrial Plastics Inc., ("An-Cor"), was involved in the process whereby An-Cor learned from the plaintiff how to manufacture manhole covers in the summer of 2011. He testified that An-Cor was provided with the technical information by the plaintiff that was necessary to build a manhole cover and collar. After three visits by the plaintiff to their factory, Mr. Arthur testified that they had a good idea how to make composite manhole covers. He said that there was never any discussion about the plaintiff providing moulds for vault lids nor any discussion of the technical or engineering requirements for vault lids. This is inconsistent with the evidence of Mr. Richardson who said that because the plaintiff had not visited DKG as planned the defendants did not know how to make the manhole covers. It is also inconsistent with Mr. Richardson's view that moulds for vault lids were included in the deal.
- [33] Mr. Arthur said that initially An-Cor manufactured manhole covers designed by the plaintiff but they decided to make solid manhole covers rather than ones with a core like the ones that the plaintiff designed after they learned in January 2012 from McGard, a company that was familiar with solid manhole covers, that solid covers tolerated a larger load. Mr. Arthur testified that An-Cor used the plaintiff's technology to make solid manhole covers. Both types of covers were made in the moulds provided by the plaintiff. An-Cor was still selling solid manhole covers as of the day of his testimony, March 10, 2016, however Mr. Arthur testified that they had only received two orders for solid covers in 2015 and none by the time he testified in 2016.
- [34] Exhibit 5 contains invoices for the manhole covers sold by An-Cor from 2011 until 2016 together with a summary schedule of all of the sales. Total sales for that period were \$77,764.85 US. The plaintiff says that he is not seeking royalties for the sale of the solid covers. Rather, he is seeking the amounts specified to be "minimum royalties".
- [35] DKG paid an invoice from the plaintiff dated September 7, 2011 in the amount of \$28,000 described as "Pre-payment on royalties - non-refundable".
- [36] Amounts described as "minimum royalties" by the parties were never paid.

Analysis

Was There an Agreement between the Parties?

- [37] The plaintiff argues that the agreement between the parties is contained in Mr. Richardson's email of March 28, 2011. He says that he accepted the offer contained in that email. The evidence does not support that argument.

- [38] The evidence of the first response to Mr. Richardson's email of March 28, 2011 is the plaintiff's email of March 30, 2011. It is notable that in his response, the plaintiff incorporates the suggestion of Mr. Richardson that that minimum royalties in years six and seven be increased to \$50,000 from \$30,000 as contemplated by the plaintiff in his email to Mr. Richardson on March 25, 2011, however he does not indicate his acceptance of the other terms in Mr. Richardson's email and sets out what he believed to be the agreement between them.
- [39] In my view the parties entered a binding agreement which is reflected in the email from the plaintiff to Mr. Richardson dated March 30, 2011.
- [40] Although there were subsequent exchanges of emails and discussions regarding the terms of the agreement I have concluded that, based on the evidence, a reasonable person would believe that the plaintiff and defendant intended to be bound by the terms expressed in the March 30, 2011 email. (see *Hoban Construction Ltd. v. Alexander*, 2012 BCCA 75 and *Vancouver Canucks Limited Partnership v. Canon Canada Inc.*, 2013 BCSC 866)
- [41] I agree with the defendants that the plaintiff's testimony on March 1, 2016 supports the conclusion that the email of March 30, 2011 created a binding agreement. In his testimony, the plaintiff stated that in the email of March 30, 2011 contained what he thought was the agreement between the parties. The assets offered by the plaintiff were shipped to the defendants on April 13, 2011 and between March 30, 2011 and the date of shipment there were no other communications between the parties that would have altered the terms upon which the assets were sold. The plaintiff admitted that the email of March 30, 2011 contained the only terms that applied at the time he shipped the assets.
- [42] Ms. Billing's testimony also tends to confirm the binding nature of the terms in the March 30th email. She said that the plaintiff directed her to prepare an invoice to the defendants in the amount of \$80,000. This instruction is consistent with the terms expressed in the March 30 email.
- [43] Mr. Richardson testified that he believed that he and the plaintiff had reached an agreement and provided his lawyer with his understanding of the agreement in the March 30th email so that a formal legal document could be prepared.
- [44] While the parties contemplated the execution of a formal agreement nowhere in the emails between the parties does the plaintiff state that the terms of the March 30th email are not binding until a formal legal document is executed.
- [45] In my view, the plaintiff's assertion that the terms of the March 30th email were subject to a final agreement being prepared by lawyers was born out of his subsequent realization that his March 30th email provided that the agreement would expire if the minimum royalty payments were not made. That provision is consistent with both his wishes and the wishes of Mr. Richardson as expressed in their prior emails and is consistent with the plaintiff's understanding, as expressed during his Examination for Discovery.

- [46] The execution of a formal contract was not a condition of the agreement by the parties. Rather, it was the parties' intent that what was already agreed to by them would be put into formal terms. The essential terms were agreed to and are contained in the March 30th email, including the purchase price of the assets, the payment dates, the royalty payments, the transfer of intellectual property rights and the consulting work. The fact that a formal written document to the same effect was to be prepared and signed does not alter the binding validity of the original agreement. (*Bawitko Investments Ltd. v. Kernels Popcorn Ltd.*, [1991] O.J. No. 495 (ONCA))
- [47] It remains to be determined whether the defendants agreed to pay minimum royalties each year or whether the royalties were a target amount to be met by the defendants and if the target was not met the defendants would lose their exclusive right to the plaintiff's intellectual property.
- [48] In my view, the payment of royalties was linked to the defendant's exclusive right to use the plaintiff's intellectual property. If the defendant did not make the minimum royalty payments they would lose the intellectual property rights.
- [49] In interpreting the agreement between the parties I have applied the approach suggested by the Ontario Court of Appeal in *Salah v. Timothy's Coffees of the World Inc.*, 2010 ONCA 673 at para. 16 and affirmed by the Supreme Court of Canada in *Sattva Capital Corp. v. Creston Moly Corp.*, 2014 SCC 53 at paras. 47 and 50.
- [50] The plaintiff's assertion that the minimum royalty payments were guaranteed each year is not expressed in the March 30th email.
- [51] Indeed, in the plaintiff's letter to the defendant on February 16, 2011, he sought a 2% royalty for each unit sold and did not mention a minimum royalty. It is not disputed that Mr. Richardson first brought up the idea of minimum royalties. At their meeting on March 8, 2011, Mr. Richardson told the plaintiff that he would agree to minimum payments to achieve exclusive rights to the intellectual property. If the defendant was not able to sell the product then the plaintiff was to be free to deal with someone else.
- [52] In the plaintiff's email to Mr. Richardson on March 16, 2011, he states:
- I would retain ownership of the intellectual property rights. They would be licensed to you as long as the "royalty minimum" is paid. The license would be exclusive unless the royalty minimum was not achieved.
- [53] In his email to the plaintiff on March 16, 2011, Mr. Richardson states:
- Yes, you would retain the intellectual property but we would have exclusivity as long as we maintained the minimum royalty.
- [54] In an email from the plaintiff to Mr. Richardson on March 25, 2011 the plaintiff states:

My worst case: - This agreement provides 2 ½ years (less one day) exclusive access to the intellectual property rights for \$10,000.

and further:

This agreement expires if the minimum royalty payments are not made.

[55] In his March 28, 2011 email to the plaintiff, Mr. Richardson states:

If we don't make the minimum payments then you would take back the intellectual property rights.

If we make all the minimum payments for 7 years we would complete the purchase agreement.

How about we increase the minimum royalty to \$50,000 in years 6 and 7?

[56] In my view the exchange of emails shows that the agreement to pay minimum royalties related solely to the maintenance of exclusive rights to the intellectual property by the defendants. This view is consistent with the plaintiff's description of minimum royalties at his Examination for Discovery on November 5, 2015 where he agreed that in order to maintain the exclusive rights to the intellectual property the minimum royalties had to be paid failing which the plaintiff could take the technology to someone else. (Vol. 2 of transcript from Examination of Discovery at page 256 - Q. 1098 to 1103)

[57] From the defendant's standpoint if they found the product was unsuccessful they would not be required to make payments to the plaintiff but would have to give up the right to the intellectual property.

[58] Of importance also is the fact that the plaintiff drafted the March 30, 2011 email and to some extent it is a summary of the prior email exchanges. To the extent that the meaning of "minimum royalty" is ambiguous, it should be interpreted against the plaintiff.

[59] In *ERK Eckrohrkessel GmbH v. CET Energy Systems Inc.*, [1994] B.C.J. No. 186, aff'd on other grounds [1995] B.C.J. No. 664, this court has interpreted the term "minimum royalty" to require payment regardless of sales. In that case Lander J. stated:

[15] The issue of whether such royalties are payable irrespective of sales is implicitly answered by the term "minimum royalty". If the payment were dependent on sales then it, quite simply, could not be defined as a minimum royalty. In my view, the only reasonable interpretation of Clause 5 is that royalties are to be paid on a 6% ex works price basis, but this formula is notwithstanding the covenant that the royalties payable can never be less than DM 30,000.

- [161] In my view, the interpretation urged by the plaintiff is the only reasonable one flowing from the words of the contract. It is uncontested that the defendant has failed to pay any royalties during the last three years of the initial five year term. It is also uncontested that the defendant was unable to sell any of the plaintiff's technology. Accordingly, the contract obligates the defendant to pay the minimum royalty of DM 30,000 per year, totalling [sic] DM 90,000.
- [60] The difference in this case is that the plaintiff expressly stated in the March 30th email and before, that the agreement would expire if the minimum royalty payments were not made. In order to make commercial sense of the minimum royalty in the circumstances of this case, I have concluded that the payment of minimum royalties allowed the defendant to have the exclusive use of the plaintiff's intellectual property rights but that the payment of such royalties was not guaranteed. If the defendants failed to pay the minimum royalties the agreement would come to an end.
- [61] As reflected in an email from the plaintiff to Mr. Richardson on May 13, 2011, and an email from Mr. Richardson to the plaintiff on May 20, 2011, the plaintiff and Mr. Richardson subsequently agreed that DKG would pay \$25,000 to the plaintiff as a deposit on future royalties. In an email from Mr. Richardson to the plaintiff dated May 30, 2011, Mr. Richardson acknowledged the agreement to pay \$25,000 as a non-refundable prepayment on royalties but added that the plaintiff should pay 5% interest on that amount until the royalties became payable.
- [62] The plaintiff issued an invoice on September 7, 2011 for \$25,000 plus HST of \$3,000 containing the description, "Pre-payment on royalties - non-refundable. 5% interest - two year maximum". It was paid by DKG on September 8, 2011.

Did the Agreement Provide for the Transfer of Vault Lid Technology and Moulds?

- [63] In my view there was no agreement between the parties whereby the plaintiff was obligated to provide vault lid technology or moulds to the defendants.
- [64] The engineer for An-Cor who was involved in the process of that company learning to make manhole covers testified that he had no discussions regarding vault lids and says that An-Cor was focused on making manhole covers.
- [65] The agreement reflected in the email of March 30, 2011 expressly states that the agreement applied to "H-20 or equivalent performance round manhole covers and collars constructed using glass fibre reinforced composite technology". There is no mention of vault lids.
- [66] The invoice dated April 15, 2011 from the plaintiff to Mr. Richardson regarding the sale of the moulds refers only to the 24" and 30" inch moulds and collars which is a clear reference to the manhole covers.

Was the Plaintiff Precluded from Receiving Payment on Invoices by section 24 of the Engineers and Geoscientists Act?

[67] Section 24 of the Engineers and Geoscientists Act, [RSBC 1996] Chapter 116, (the "Act"), provides:

Except as provided in this Act, a person is not entitled to recover any fee or remuneration in any court of law in British Columbia for any work done or service rendered that is within the definition of "practice of professional engineering" or of "practice of professional geoscience" unless the person is a member of the association and holds a certificate of registration or is licensed under the provisions of this Act at the time the work is done or service rendered.

Except as provided in this Act, a corporation is not entitled to recover any fee or remuneration in any court of law in British Columbia for any work done or service rendered that is within the definition of "practice of professional engineering" or of "practice of professional geoscience" in this Act.

[68] In applying this section I have considered *Lionel v. Nicolls*, (1953) 9 W.W.R. (N.S.) 91 (BCCA) and *George L. Brough Marine Consultants Ltd. V. Aqua Terra Flotations Ltd.*, [1982] B.C.J. No. 852 (BCSC).

[69] The plaintiff was not at any time a member of the Association of Professional Engineers and was not licensed under the provisions of the Act.

[70] The "practice of professional engineering" includes the designing of industrial works and any other engineering works. (Section 1 of the Act). The plaintiff testified that he designed the honeycomb structure of the manhole cover and that it was a complex design that took him about 5 years to complete. He said that his plan was that he would eventually be remunerated by royalties. He also testified that the 2% royalty rate was intended to be his remuneration for the work he had done in developing the manhole cover.

[71] In my view the work that the plaintiff carried out in designing and developing manhole covers falls within the definition of the practice of professional engineering in s. 1 of the Act.

[72] I have also concluded that s. 24(1) bars the plaintiff from recovering any remuneration for the work he did in relation to the design and development of manhole covers. In particular, he was not entitled to receive the prepayment of royalties in the amount of \$25,000 plus tax of \$3,000 as described in his invoice of September 7, 2011. (Exhibit 1 - Tab 54) Nor was he entitled to any royalties for the actual sale of manhole covers designed by him or made in the moulds sold to the defendants.

[73] Section 24 does not apply to the invoice dated April 15, 2011 in the name of AIC to Mr. Richardson for machinery for a total price of \$20,000 plus HST of \$2,400. Nor does it apply to the invoices dated April 15, 2011 and May 31, 2011 in the name of "Martyn Billing, M.Sc. - Design Engineer" because the April 15th invoice was for the 24" and 30" cover and collar moulds and the May 31st invoice was for the final payment for the "manhole cover assets". I do not consider the amounts in those invoices to represent a "fee or remuneration". They represented the purchase price for the assets sold.

[74] The plaintiff's claim for royalties is dismissed and the plaintiff is ordered to repay to the defendants the amount received by him as prepaid royalties.

[75] As a result of the non-payment of minimum royalties, the agreement between the parties came to an end on October 1, 2012.

Did the Plaintiff Fail to Provide Consulting Services?

[76] The agreement provided that the plaintiff would provide "up to" certain amounts of consulting time. Payment for that was to be "covered by the royalty payments."

[77] The plaintiff did provide consulting services. This was confirmed by Mr. Millar who was involved in the process whereby An-Cor learned from the plaintiff how to manufacture manhole covers in the summer of 2011. He testified that An-Cor was provided with the technical information by the plaintiff that was necessary to build a manhole cover and collar and that, after three visits by the plaintiff to their factory, Mr. Arthur testified that they had a good idea how to make composite manhole covers. Furthermore, An-Cor went on with the production and sale of manhole covers using the plaintiff's technology and mould after the agreement came to an end.

[78] In my view, the evidence does not establish that the plaintiff was in breach of the agreement by failing to provide consulting services.

[79] I will now turn to the counterclaim by the defendants. I note that the counterclaim was not filed until February 10, 2016, almost two years after the original Notice of Civil Claim was filed.

Did AIC or the Plaintiff Make a Fraudulent or Negligent Misrepresentation to the Defendants?

[80] To succeed in their counter claim the defendants must establish that:

1. AIC or the plaintiff made a representation of fact to Mr. Richardson,
2. The representation was false,
3. AIC or the plaintiff knew that the representation was false or made the representation recklessly not knowing if it was true or false;
4. AIC or the plaintiff intended the defendants to act on the representation, and
5. The defendants were induced to enter into the agreement in reliance upon the false representations and thus suffered a detriment.

(Van Beek v. Dodd, 2010 BCSC 1639)

[81] The fraudulent representations alleged by the defendants are:

- a. That the plaintiff was an engineer,
- b. The manhole covers and collars designed by the plaintiff were "engineer certified",

- c. The manhole covers and collars were patented,
 - d. The manhole covers met the industry specifications and standards necessary to sell the products and were H-20 road-rated, and
 - e. AIC had a lengthy and successful history with BC Hydro and had developed goodwill with BC Hydro but had simply decided not to participate in the 2010 bid for the vault lid contract.
- [82] The evidence is that the plaintiff described himself to Mr. Richardson on more than one occasion as an engineer. However, based on his testimony, in my view the plaintiff did not consider that to be false, did not know it to be false and did not make the representation recklessly not caring whether it was true or false. The plaintiff used the description "engineer" to describe his role in developing the manhole cover. Mr. Richardson understood the significance of being a certified professional engineer because he testified that DKG and An-Cor employed four or five professional engineers. At no time did the plaintiff describe himself as a professional engineer. Mr. Richardson testified that he assumed that the plaintiff had certified the manhole covers as an engineer however the plaintiff did not represent that to him.
- [83] The description of the manhole covers as "engineering certified" is found in AIC's website (Exhibit 1 - Tab 83) and Mr. Richardson was referred to the website by the plaintiff. In his testimony, the plaintiff agreed that the manhole covers were not engineering certified however the extent to which Mr. Richardson relied on that is not clear. Mr. Richardson acknowledged that An-Cor had sold manhole covers designed by the plaintiff in 2012 after he had determined that a solid manhole cover could bear more weight. At no time did Mr. Richardson request any confirmation of the certification such as in his email of March 3, 2011. Nor did he refer to engineer certification in any of his emails preceding the March 30, 2011 agreement. In the draft agreement prepared by the defendant's lawyers (Exhibit 1 - Tab 28) no reference is made in the list of representations and warranties to the covers being engineer certified.
- [84] In my view, the evidence does not establish that the defendants were induced to enter into the agreement in reliance upon the representation that the manhole covers were engineer certified. The evidence does not show that the defendants relied in a reasonable manner on that representation when they made the agreement with the plaintiff.
- [85] With regard to whether the manhole covers and collars were patented, AIC's website refers to "our patented covers and collars". The original letter from AIC to DKG on February 16, 2011 says, "We held U.S. and Canadian patents for the construction method and process." (Emphasis added). On March 8, 2011, AIC provided Mr. Richardson with letters from a law firm dated December 30, 2009 and September 10, 2010 referring to the patents and indicating that the Canadian patent had lapsed but could be reinstated by September 5, 2011 and that the U.S. patent may have lapsed if fees had not been paid in time. Clearly Mr. Richardson was made aware of the status of the patents and could have taken steps to have them renewed had it been important to the defendants. There is no evidence that he sought

to renew the patents.

- [86] In light of the disclosure by AIC of the information regarding the patents, no misrepresentation was made regarding the patents by the plaintiff or AIC.
- [87] With regard to the representation that the manhole covers were H-20 road rated, the defendants rely on the letter of February 16, 2011 from AIC to DKG. The reference to H-20 road rated is to vault lid covers and not to manhole covers. The letter goes on to say that AIC's method is the most cost effective way to achieve H-20 road rated manhole covers. Mr. Richardson said he understood that they could be placed on roads and cars could safely drive over them.
- [88] Mr. Arthur, an engineer with An-Cor, explained how An-Cor had tested both solid manhole covers from McGuard and the covers designed by the plaintiff. My understanding of his evidence is that the covers designed by the plaintiff passed the H-20 loading requirement of 40,000 pounds but did not satisfy a fatigue test which involves putting the cover through a number of cycles. For this reason the defendants say that the manhole covers designed by the plaintiff did not meet the industry standard.
- [89] In my view, the evidence shows that the manhole covers were H-20 road rated in Canada. While they may not have met the industry standard for sale by the defendants in the United States, the evidence does not establish that the plaintiff or AIC represented to the defendants that AIC's manhole cover met the industry standard in either Canada or the U.S. Nowhere in his emails leading up to the March 30, 2011 agreement does Mr. Richardson make any reference to the significance of the covers meeting the industry standard. In the draft agreement prepared by the defendants' lawyers there is no reference to a representation by AIC that the manhole covers would meet the industry standard.
- [90] Even after the defendants decided that AIC's manhole covers did not meet the industry standard they sold some to customers. Mr. Arthur said that after learning of some problems with the covers he did not speak with the plaintiff to determine if covers with a greater load capacity could be produced with his design. He agreed that An-Cor used the plaintiff's technology to make the solid covers and that they were being sold up to 2016.
- [91] I have concluded that AIC did not represent that the manhole covers met industry standards and that the evidence does not establish that the representation that the cover was H-20 road rated was false.
- [92] With regard to the relationship between AIC and BC Hydro, the evidence is that the representation that there had been a successful history was accurate as was the decision by AIC not to produce vault lids after BC Hydro changed its specifications. While AIC later had a dispute with BC Hydro in my view, the knowledge of that fact would not have altered the defendants' decision to enter an agreement with AIC, particularly because, as I have found, the agreement did not contemplate the sale of the vault lid technology or moulds.

- [93] The defendants rely on the same evidence that they consider establishes fraud on the part of the plaintiff and AIC to show that the plaintiff and AIC made negligent misrepresentations. For the reasons given in relation to the alleged fraudulent representations I have concluded that neither the plaintiff nor AIC made negligent misrepresentations.
- [94] Even if I am wrong in concluding that the plaintiff or AIC did not make negligent misrepresentations, the evidence does not establish the damages suffered by the defendants as a result. As Mr. Arthur admitted, the defendants had initially sold manhole covers designed by the plaintiff but decided instead to sell solid manhole covers because they could withstand a higher load. An-Cor continued to sell manhole covers made with the plaintiff's technology after its relationship with the plaintiff had ended. Mr. Arthur testified that even the sale of solid manhole covers had declined by 2016 because the demand for metal covers was returning. Mr. Richardson also pointed out that An-Cor ceased all marketing efforts after the litigation began. Mr. Arthur said that An-Cor had not received any complaints from buyers of cored manhole covers from them and they had been in use for about five years.
- [95] Accordingly, it is my view that the defendants obtained what they had bargained for, namely, the technology, moulds and equipment necessary to manufacture and sell manhole covers. While the defendants became concerned with the capacity of the covers, the uncontradicted evidence of the plaintiff is that his technology could have been used to make manhole covers that withstood greater loads but the defendants never pursued that possibility with him.
- [96] There is no evidence that the price for the assets was unreasonable. In his testimony, Mr. Richardson said that the construction of only one mould would cost about \$65,000. In his email of March 2, 2011 he expressed the view that the assets purchased were worth "considerably more" than \$100,000. The evidence of Mr. Arthur is that the defendants used the technology of the plaintiff and moulds provided by AIC to manufacture manhole covers which were sold from 2011 until 2015 for a total price of \$77,765. While I have concluded that the plaintiff is not entitled to any royalties, the evidence establishes that the defendants were able to use and did use the assets and technology acquired from AIC and the plaintiff to manufacture and sell manhole covers.
- [97] The defendants are entitled to the repayment of the amount described as prepaid royalties as described above in these reasons. In all other respects the counterclaim is dismissed.
- [98] As the defendants alleged but did not prove fraud on the part of the plaintiff or AIC, no award of costs is made.

"Bowden J."

Source & reproduction note

Judgment wording, source notices and original paragraph numbers are retained. Esheria supplies the layout and this PDF's page numbers; these are not the source pagination. This is a research copy, not an official or certified court document. Check quotations, citations and publication restrictions against the original source before relying on it.

ORIGINAL SOURCE <https://www.bccourts.ca/jdb-txt/sc/17/17/2017BCSC1777.htm>

CASE PAGE <https://chat.esheria.ai/case-law/canada/billing-v-precisioneering-dkg-corp-2017>

Prepared on 26 October 2026 · Esheria