IN THE SUPREME COURT OF BRITISH COLUMBIA

Citation: *XY, Inc. v. International Newtech Development Incorporated,* 2012 BCSC 319

Date: 20120302
Docket: S076862
Registry: Vancouver

Between:

XY, Inc.

Plaintiff

And

International Newtech Development Incorporated, IND Lifetech Group Ltd., IND Lifetech, Inc., now known as JingJing Genetic Inc., IND Lifetech (U.S.A.) Incorporated, IND Lifetech (USA) Inc., IND Lifetech (Qingdao) Co. Ltd., IND Lifetech (Zouping) Co. Ltd., IND Lifetech (Beijing) Co. Ltd., IND Lifetech Co. Ltd., IND Embryontech Inc., Jesse Jia-Bei Zhu, Richard Remillard, Zhen Hong Liu, Shu Xi Wang, Selen Zhou, Tang Jin, John Doe #1, John Doe #2, John Doe (Manufacturing), and Shanghai JingJing Biotech Co. Ltd., formerly known as Genetic (Shanghai) Ltd.

Defendants

And

Inguran, LLC, doing business as Sexing Technologies

Defendant by Counterclaim

Before: The Honourable Mr. Justice Kelleher

Reasons for Judgment

Counsel for Plaintiff:	C.S. Wilson and G.M. Bowman
Counsel for the Defendants International Newtech Development Incorporated, IND Lifetech Group Ltd., IND Lifetech (U.S.A.) Incorporated, IND Lifetech (USA) Inc., IND Lifetech (Qingdao) Co. Ltd., IND Lifetech (Zoupin) Co. Ltd., IND Embryontech Inc., Shanghai JingJing Biotech Co. Ltd., formerly known as JingJing Genetic (Shanghai) Ltd., Jesse Jia-Bei Zhui, Selen Zhou, and Tang Jin:	R. Josephson
Place and Date of Trial:	Vancouver, B.C. October 18-22, 25-29, November 1-5, 12, 15-19, 2010, February 7-10, 16-18, March 4 and 11, 2011
Place and Date of Judgment:	Vancouver, B.C. March 2, 2012

TABLE OF CONTENTS

Introduction
The Parties
Substitution of a Party
Background
Events Leading up to the CLA
The Parties' Entry into the CLA and the Commercialization Date
The Relationship between XY and JingJing
The Litigation
The Deception of XY
The False Reports
The Acquisition of XY by ST
The Sale of JingJing
Wagyu Embryos and the Québec Lab
The Current Proceedings
The Rule in Browne v. Dunn
Credibility of the Personal Defendants
Plaintiff's Claims Against the Defendants
(a) Breach of Contract
(b) Breach of Confidence
(c) Inducing Breach of Contract
(d) Deceit
(e) Conspiracy
Quantum of Damages
Adverse Inference
Embryos Produced by the Defendants
Fair Market Value of IVF Embryos
Semen production
In vivo embryos
Conclusion regarding loss
Liability of Defendants other than JingJing
IND Group as a "common interest entity"
Piercing the Corporate Veil – the Group Enterprise Doctrine
Unjust Enrichment

Injunctions
Punitive Damages
Special Costs
  Dishonest Testimony
  Failure/Refusal to Produce Documents
Summary

Introduction

[1] The plaintiff XY Inc. ("XY") owns technology (and the intellectual property rights associated with the technology) that permits the separation of X (female) and Y (male) chromosomes from bovine spermatozoa. This valuable technology is used as a means of producing calves of a desired sex.

[2] The chromosomes are separated using a cytometer, a device that counts cells. The cytometers that are adapted for this purpose are called SX cytometers. These cytometers are manufactured by DakoCytomation Inc., which has a cross-licensing agreement with XY.

[3] On February 6, 2004, the plaintiff entered into a contract called a "Commercial License Agreement" ("CLA") with the defendant IND Lifetech Inc., now known as JingJing Genetics Inc. ("JingJing"). Under the terms of the contract, JingJing acquired the right to use the plaintiff's technology. In return, it had various obligations, including strict confidentiality, disclosure and assignment to XY of any technological developments, accurate and timely reporting of its use of XY's technology and products, the duty to not sub-license or sub-contract, and the fundamental obligation to pay royalties.

[4] The plaintiff's case is that JingJing and four persons, Jesse Jia-Bei Zhu, Selen Zhou, Tang Jin, and Richard Remillard, systematically deceived XY and vastly underreported the number of products they were making, selling and using.

[5] These defendants deny this. They say that when the ownership of XY changed in 2007, the new owners looked for ways to terminate the CLA.

[6] This case has been complicated by the failure on the part of the principal defendants to meet their obligations under the *Supreme Court Civil Rules*, B.C. Reg. 168/2009, to provide documents. There is no dispute about the defendants'

failure in this regard. On February 18, 2011, Mr. Josephson, counsel for many of the defendants, made this candid and entirely proper concession: “I concede I can’t explain the failure to deliver documents.”

[7] The plaintiff alleges breach of contract by JingJing; it alleges the defendants are liable for damages in the civil torts of conspiracy, deceit, breach of confidence, inducing breach of contract and unlawful and direct interference with economic relations. The plaintiff claims unjust enrichment on the part of the defendants and claims a constructive trust.

[8] The plaintiff seeks:

> (a) injunctive relief restraining the defendants from using the plaintiff’s intellectual property or confidential information;
>
> (b) a mandatory injunction directing the defendants to return to the plaintiffs or to destroy under oath material contained or developed or produced using confidential information;
>
> (c) damages;
>
> (d) punitive, exemplary and/or aggravated damages;
>
> (e) costs on a full indemnity basis or alternatively, special costs; and
>
> (f) interest.

[9] The defendants’ failure to disclose documents has had a substantial impact on the plaintiff’s ability to prove its case. I have reached conclusions where the evidence established facts or permitted inferences to be drawn. However, when one is left with suspicion and not proof on a balance of probabilities, a plaintiff cannot succeed.

The Parties

[10] XY, LLC is a Delaware company. Before converting to a Delaware company in January 2010, it was XY, Inc., a company incorporated in Colorado.

[11] XY was founded by Colorado State University Research Foundation and Cytomation, Inc. Dr. Mervyn Jacobson became the majority shareholder and was XY’s CEO and Chair of its board of directors until June 2007.

[12] Inguran, LLC, doing business as Sexing Technologies (“ST”), acquired a majority interest in XY in May 2007, and acquired all its shares by November 2007.

[13] JingJing was incorporated in British Columbia in 1997. It changed its name from IND Instruments Inc. to IND Lifetech Inc. in 1998 and in February 2008 became JingJing.

[14] In December 2007, there were four shareholders of JingJing with these holdings:

International Newtech Development Incorporated	82.0%
497244 B.C. Ltd.	10.8%
IND Diagnostics	7.0%
Jesse Zhu	0.2%

[15] On January 1, 2008, all of the JingJing shares were sold to Zhen Hong Liu (54%) and Shu Xi Wang (46%). On July 1, 2008, Zhen Hong Liu acquired the shares of Shu Xi Wang and became the sole shareholder.

[16] On August 31, 2010, JingJing filed for bankruptcy.

[17] International Newtech Development Incorporated (“International Newtech”) is a B.C. company. The defendant Jesse Zhu has been the sole shareholder and director of International Newtech since 1994.

[18] IND DairyTech Ltd. is a publicly traded company on the TSX Venture Exchange. It was originally incorporated as China One Corporation. It became a Cayman Island company on December 2, 2008. On December 18, 2008, there was a reverse takeover. On July 22, 2009, the name was changed to IND DairyTech Ltd.

[19] The shares of IND DairyTech Ltd. are widely held. Since December 18, 2009, 46% of the shares have been owned by Excel Advance International Ltd. (“Excel”). The sole shareholder of Excel is International Newtech.

[20] IND Lifetech Group Ltd. (“IND (Cayman)”) was incorporated on June 15, 2000, in the Cayman Islands. Originally, it was owned by International Newtech.

On July 23, 2007, 100% of the shares were sold to Excel. Subsequently, on December 18, 2008, 100% of the shares were sold to IND DairyTech Ltd.

[21] IND Lifetech (Qingdao) Co. Ltd. ("IND (Qingdao)") is registered in China. IND (Cayman) wholly owned this company at first. It is now 76.67% owned by IND DairyTech Ltd. It is in the business of cattle raising, breeding and milking in Northern China.

[22] IND Lifetech (Zouping) Co. Ltd. ("IND (Zouping)") was incorporated in China in 2003. It was in a similar business to IND (Qingdao) and has been deregistered and become part of IND (Qingdao).

[23] IND Embryontech was incorporated in 2003. It produced IVF sexed embryos in Drummondville, Québec.

[24] IND Lifetech (U.S.A.) Incorporated ("IND (Pennsylvania)") was incorporated in Pennsylvania on August 11, 2003. The sole shareholder is IND (Cayman) and the sole director is Jesse Zhu. It was incorporated for the purpose of producing embryos in the United States. However the IND Group was not satisfied with the quality of oocytes in Pennsylvania. Operations of this company ceased in 2007.

[25] IND Lifetech (USA) Inc. ("IND (California)") was incorporated in California in 2007. The sole shareholder is IND (Cayman) and the sole director is Jesse Zhu. It was incorporated when United States operations were moved from Pennsylvania to Fresno, California.

[26] IND (California) ceased operating in May 2008 because of the continuing ban on exports of embryos from the United States to China.

[27] The various defendant IND companies, including JingJing, are referred to in this judgment as the "IND Group".

[28] The defendant Jesse Jia-Bei Zhu was born in China, and now lives in British Columbia. He is a Canadian citizen. He did his bachelors and masters degrees in China, and originally came to Canada as part of his Ph.D. studies.

[29] The defendant Richard Remillard is a veterinarian. Mr. Zhu hired him in 2001 as vice president of JingJing. He became president of JingJing in 2003.

[30] The plaintiff discontinued this action against Dr. Remillard as a result of a settlement agreement between them in April 2008.

[31] Under the terms of the agreement, Dr. Remillard agreed to deliver a "comprehensive, true affidavit in response to Interrogatories to be delivered by counsel for the Plaintiff to use in the Proceedings".

[32] The defendant Selen Zhou is the financial manager for IND Embryontech Inc. She did financial management for International Newtech and, until its bankruptcy, JingJing. She also did accounting work for IND (California) and IND (Pennsylvania). She, along with Jesse Zhu, Dr. Remillard and Tang Jin, were the management team of JingJing.

[33] The defendant Tang Jin was the lab manager for International Newtech. She was in charge of embryo production and, later, semen production.

[34] The defendant, Zhen Hong Liu, lives in Beijing. He is the sole shareholder of JingJing.

[35] The defendant, Shu Xi Wang, lives in Beijing. He was a shareholder and director of JingJing from January 2008 to July 2008.

[36] The defendants are referred to collectively in this judgment as the "IND defendants".

Substitution of a Party

[37] On April 11, 2011, after the conclusion of the trial, the plaintiff applied to "correct a misnomer".

[38] On October 18, 2010, the first day of the trial, the plaintiff applied for default judgment against IND Lifetech (Beijing) Co. Ltd. The application was not opposed and the order was made. It has not been entered.

[39] On December 8, 2010, counsel for the IND defendants wrote to counsel for the plaintiff. He advised that his client's position was that "IND Lifetech (Beijing) Co. Ltd.", is a company unknown to them. He advised that his clients instructed him that the IND company in Beijing is in fact "Beijing IND Embryontech Co. Ltd.".

[40] Those instructions, although perhaps accurate, were inconsistent with some of the evidence in these proceedings. On March 29, 2008, Jesse Zhu swore an affidavit in support of the effort by the IND defendants to submit the plaintiff's claim against it to arbitration. Mr. Zhu identified himself in this affidavit as a director of IND LifeTech (Beijing) Co. Ltd.

[41] On March 24, 2009, the IND defendants filed an amended statement of defence. It states that:

> The entity referred to as IND (Beijing) Co. Ltd. is not an entity known to the IND defendants or the individual defendants. It may be the latter entity is in fact an entity known as Beijing IND Embryontech Co. Ltd.

[42] Mr. Zhu confirmed in cross examination at the trial that he had stated in the course of his examination for discovery that IND Lifetech (Beijing) Co. Ltd. was known to him and he was the "boss" of that company.

[43] Selen Zhou gave evidence about this matter as well. She made it clear there is only one IND company in Beijing:

> Q: Exhibit 94, Excuse me. Where Mr. Zhu is deposing that he's the director of IND. Lifetech (Beijing) Co. Ltd. Would you agree with me that the English – the proper English version of this – will actually, let me ask that question in a different way. Would you agree with me that the reference in Mr. Zhu's affidavit to IND Lifetech (Beijing) Co. Ltd. is the same company as the company at paragraph 14 (a) of the agreed statement of facts?
>
> A: Yes.
>
> Q: Okay. Thank you. I just want to make sure that there is no dispute about what company that is and there is only one, do you agree with that?
>
> A: Yes.
>
> Q: And although there has been a bit of a disagreement about the proper English name, whether you call it IND Lifetech (Beijing) Co. Ltd. like on the website or Mr. Zhu's affidavit, or you call it Beijing IND Embryontech Co. Ltd., like in paragraph 14 (a) of the agreed statement of facts, it's the same company?
>
> A: Yes.

[44] Mr. Zhu also confirmed at trial that Selen Zhou stated in the course of her discovery that the Chinese text on the IND Lifetech Group's website referred to: "IND Lifetech (Beijing) Co. Ltd.".

[45] Rule 6-2 (7)(b) provides that the Court may order that a person may be added or substituted as a party at any stage of a proceeding.

[46] The Court has an unfettered discretion to vary an order which has not been entered. The B.C. Court of Appeal put it this way in *Harrison v. Harrison*, 2007 BCCA 120 at para. 28:

> The scope of a trial judge's discretion to vary an order after pronouncement depends on whether a formal order has been entered. So long as the order remains unentered, the judge retains "an unfettered discretion" to re-open the matter. That discretion should be used sparingly: *Sykes v. Sykes* (1995), 6 B.C.L.R. (3d) 296 (C.A.). Although this discretion is sometimes treated as part of the discretion granted by Rule 41(24), the "Slip Rule", it is in fact a common law discretion recognized by this Court in *Clayton v. British American Securities Ltd.*, [1934] 3 W.W.R. 257, [1935] 1 D.L.R. 432.

[47] The plaintiff was entitled to rely on the answers given on discovery by Mr. Zhu and Ms. Zhou. On the other hand, if the defendant had been properly named, there would not have been default judgment against it. The claim would have been defended.

[48] In the circumstances, I am ordering the setting aside of the default judgment. I am deleting IND Lifetech (Beijing) Co. Ltd. as a defendant and adding "IND Lifetech (Beijing) Co. Ltd., also known as Beijing IND Embryontech Co. Ltd."

[49] If there is any dispute as to whether any judgment in this matter should be against the newly named defendant, I will hear submissions from the parties.

Background

Events Leading up to the CLA

[50] Thomas Gilligan is a long-time employee of XY and was XY's general manager at the time of the formation of the CLA with JingJing. He served as general manager of XY from 2002 to 2010. He is currently employed by ST.

[51] Mr. Gilligan testified that flow cytometry began some 30 years ago. Scientists in the Silicon Valley studying DNA were doing flow cytometry studies on sperm and realized that X and Y chromosomes could be identified. The United States Department of Agriculture ("USDA") used this knowledge and developed a

way of keeping the sperm alive through a sorting process. The USDA acquired a patent and made various improvements to the process.

[52] The first commercial use of this technology was by Mastercalf, a company in the United Kingdom. Mastercalf acquired a license from the USDA to use sorted sperm to create embryos through *in vitro* fertilization or "IVF". IVF is a process of having sperm fertilize oocytes obtained from cows in a fluid medium.

[53] According to Mr. Gilligan, the sorter used by Mastercalf was not fast enough to make the process commercially viable.

[54] The next developments were two. First, Colorado State University developed a way to work with more manageable numbers of sperm. Second, a company called Cytomation, Inc., later called DakoCytomation, developed a much faster sorter.

[55] In 1996, XY was formed by the Colorado State University Research Foundation and Cytomation, Inc. Its purpose was to bring this new technology to the marketplace. The first licensee of XY was a company called Cogent in the United Kingdom. Then, XY purchased Mastercalf so XY controlled both "exclusive licenses" that had been issued by the USDA.

[56] Mr. Zhu testified that he met a Mr. Zu, the president of Inner Mongolia University and a leading scholar in bovine IVF embryo technology, in 1998. As a result of this meeting, Mr. Zhu set up a research lab in Canada to produce IVF bovine embryos for the Chinese market using top Canadian sires.

[57] Mr. Zhu investigated the principal ways in which semen could be separated: the "PCR method", the "immunology method" and sorting with the use of a cytometer. One of the companies that had flow cytometer technology was XY. An approach was made to XY.

[58] On May 14, 2003, Mr. Gilligan wrote to Dr. Remillard and described the nature of an embryo licence and an artificial insemination (or "AI") licence. The descriptions read as follows:

> EMBRYO LICENSE – There are several hundred small embryo companies in North America, many of whom will eventually be interested in using sexed semen, once it becomes more generally available. Particularly in IVF, where very low numbers of sperm are actually required for each

> resulting calf, XY Inc. will work diligently to assure that all companies who want to use sexed semen for IVF will do so under license, with agreed upon royalties. Most of these companies will not be making the large investment in sorting facilities, and most will not be willing to pay large upfront fees. Along these lines, I believe we can quickly negotiate an embryo license, directly assigned to IND Lifetech, which has a modest upfront fee, and relies primarily on royalties sales of embryos as our benefit. An additional advantage of such a license is that it will leave you free to purchase sexed semen from any of our AT licensees, globally. In this way, you may be able to use sexed semen from bulls which are not owned or held in your production joint venture. It may also allow your owner at IND to sell out his interest in the sexed semen production joint venture at a future date, but still be fully licensed to produce sexed embryos.
>
> AI LICENSE: This is the more standard license, and it must be structured along the lines which we are negotiating with large bullstuds globally. Typically, the upfront fees on these deals are much larger ($1 million US or higher), and the fee is being increased as time goes by (giving advantage to early enterers). There may also be situations in specific Territories (such as Canada), where agreements with existing licensees in that territory may determine the number or timing of additional AI licenses which we will grant. Also, each AI license, although initially allowing sales only within the territory (Canada), may typically be converted with appropriate approval from XY Inc. to allow export sales. Given the significant positive animal health/hygene [*sic*] environment in Canada, it is expected that even a small licensee in Canada may become quite active in exporting to USA, Europe, South America, etc.

[59] On July 20, 2003, Dr. Mervyn Jacobson, the CEO of XY, had a meeting in New York with Mr. Zhu, Dr. Remillard and Tang Jin. In this meeting, they discussed the concept of exporting sexed IVF embryos. The concept was that XY would provide a license for sorting bovine sperm for the production of sexed embryos. The embryos would be frozen and exported to China to supply farms who would buy directly from JingJing. In a letter dated August 5, 2003, Dr. Jacobson set out several terms that had been discussed:

- a one-time signing fee of $100,000;
- a royalty of varying amounts based on volume;
- a license term of five years with automatic renewal if the licensee is in full compliance;
- XY would help JingJing acquire its MoFlo cytometer;
- XY would help to train JingJing staff in sorting techniques;

- all know-how transferred by XY to JingJing was to be “proprietary” and remain “strictly confidential”.

[60] There were further discussions. XY provided some sorted sperm for the purpose of conducting trials. Trials were conducted at the IND (Pennsylvania) facility.

[61] On December 26, 2003, XY wrote to Mr. Zhu once again. Dr. Jacobson expressed some frustration at IND’s failure to sign an agreement. Dr. Jacobson set out what he perceived to be the history of the matter:

- I met with Richard [Remillard] at IETS, in New Zealand, and he expressed great interest in our technology.
- We then signed a confidentiality agreement with IND and started to provide a wealth of relevant information – including breeding data and economic data.
- We also started to provide sexed sperm for IND to test its IVF system with our sorted sperm.
- In June 2003, Richard and two others visited us in Colorado to discuss a license.
- In July 2003, I met you and Richard in New York, and we refined a plan for IND to be the first into the China market with IVF embryos made with our sexed sperm.
- On August 5th, 2003, I sent IND a Term Sheet, with some special terms for IND, based on this deal closing in August (see copy attached).
- Richard then said he wanted to try to lock in the SX-MoFlo cost, so I arranged for DakoCytomation to send him a formal quotation, at their special price, with $50,000 discount. However, I received no feedback, no payment and not even a signed copy of the Term Sheet, and the special offer from DakoCytomation then lapsed.
- On September 23rd, 2003, I spoke with Richard at length, at which time he reported on his successful trials using sorted sperm, and he assured me IND now wished to immediately move forward with the proposed license. I therefore produced another updated Term Sheet, dated September 23rd, 2003, for completion in September (see copy attached). However, once again, IND failed to follow through – they failed to send back even a signed copy – so again, XY, Inc had nothing from IND.
- Meanwhile, we continued to supply sexed straws to IND, and free of charge (the payment of $20 went solely to the owners of the bulls – Select Sires or ABS).
- In summary, we heard of great plans and many promises from IND, but in fact, despite all our good-faith efforts – and the supply of hundreds of

valuable straws of sexed sperm to IND., we have so far seen nothing – no signed agreement and no payments of any kind.

- On the other hand, we have meanwhile been approached by many other groups also planning to do business in China – either to set up sorting facilities inside China or to ship product to China. These other people proved to be reliable and they went ahead and signed agreements with XY, Inc., and they also paid us signing fees as promised.
- In other words, the situation we had in early and mid-2003 has since changed, as others entered the market, and did what they promised, while IND failed to commit to anything.
- Interestingly, several of the others already knew about IND – and some even brought stories about IND being unreliable – and why we may not wish to license them.
- In any case, XY, Inc. believes in the free market and we remain willing to issue licenses – until we believe the market needs are being correctly met.

[62] He also offered the following terms:

- Given we have already sold an IVF license to China with a signing fee of $250,000, and we are similarly now selling IVF licenses in USA and Canada with a $250,000 signing fee, we must now require IND to similarly pay $250,000 as a signing fee to secure the license to produce sexed embryos in USA, for sale solely in China.
- In consideration of this, we would agree for IND to have its first year of commercial sales royalty free.
- However, thereafter, the royalty will be 10% of the actual selling price – but in any case, with a minimum royalty to XY, Inc. of $5 per sexed embryo sold.
- In addition (if IND wished), on payment of a further $250,000, XY would permit IND to also sell a limited number of sexed AI straws (up to 50,000 per year) in China.
- Then, for a further $500,000, IND could have a full AI license to produce in USA, for China (if IND wished).
- Richard has also asked me if it would be possible for the IVF license to cover all 3 of your facilities – that is, if the sorter is located in one place, could you also produce sexed embryos at the other two locations – and I have considered this carefully. I think the answer is yes, though given two are in Canada and one is in USA, we may need special consent from USDA, but from the XY perspective this should be OK.
- Meanwhile, I have again asked DakoCytomation to quote for the sorters, and if you can confirm your order back to me by December 31st, 2003, I may be able once again, to get you the $50,000 discount. However, from January 1st, 2004, the price will definitely revert to more than $300,000.

[63] These terms were accepted by JingJing. Dr. Remillard signed the letter as the president of JingJing and returned it to Dr. Jacobson.

[64] The defendants' business operations were complicated by an outbreak of BSE (mad cow disease) in Canada and then in the United States. China banned the import of IVF embryos from Canada as of May 21, 2003. A similar ban was imposed on IVF embryos from the United States, effective December 23, 2003.

[65] Canadian *in vivo* embryos were permitted by the spring of 2005. Dr. Remillard estimated that the ban on Canadian embryos was lifted by China in November 2005. The Chinese ban on United States embryos was not lifted until December 12, 2008.

The Parties' Entry into the CLA and the Commercialization Date

[66] On February 6, 2004, XY entered into a formal contract with JingJing. The contract, the CLA, provided that JingJing was entitled to do the following in Canada and the United States once the commercialization date was achieved:

1. produce sex-selected inseminates in the United States and Canada;
2. use sorted semen for *in vitro* fertilization of cattle oocytes;
3. produce sex-selected cattle embryos using IVF;
4. cryogenically store sexed semen and sexed IVF embryos.

It permitted JingJing to sell IVF embryos in China only.

[67] The parties signed a new version of the CLA on May 15, 2004. The parties agree that for purposes of this case, there are no significant differences between the two documents.

[68] In the meantime, JingJing took steps to obtain a cytometer from DakoCytomation Inc. It obtained a quotation on February 11, 2004, which included the following:

> The purchaser acknowledges that XY, Inc. of Fort Collins, Colorado holds the word-wide exclusive rights to use a flow cytometer to sort non-human sperm cells for the purpose of sex selection and that a license is required from XY, Inc. to use DakoCytomation's MoFlo® cytometer for the sexing of non-human sperm cells.

[69] JingJing purchased its first SX cytometer on May 13, 2004.

[70] On October 26, 2004, XY and JingJing signed an addendum to the CLA. JingJing paid $250,000 to exercise an option permitting it to manufacture up to 50,000 AI straws. The straws containing cattle sperm were to be produced in Canada and sold in China.

[71] JingJing also purchased a second SX cytometer in October 2004.

[72] Until the commercialization date, XY was limited to performing field trials. That is, it was learning to use the equipment to meet XY's standards. Eventually, it had to satisfy XY that it was achieving the conception rate. That included the purity rate (85%-90%), speed (20,000 sperm/second) and a pregnancy rate of 50% among heifers.

[73] On October 20, 2005, XY wrote to JingJing advising that JingJing had met these standards and commercialization had been achieved. XY set the commercialization date retroactively to May 17, 2005.

The Relationship between XY and JingJing

[74] On June 5, 2006, XY and JingJing amended the CLA. This was a letter agreement prepared by XY and signed by both parties:

> I here summarize what I believe we agreed on Sunday.
>
> 1. Option to sell more than 50,000 straws per year.
>
> The Agreement dated May 13th, 2004 granted IND two options – 2.9(a) & 2.9(b), subsequently broadened by adding 2.9(c) and 2.9(d). IND then exercised 2.9(c) –that is, to be able to make up to 50,000 straws of sorted sperm per year – but IND then had just 12 months to exercise the further option – to make unlimited straws per year. This further option has since expired.
>
> It is now proposed that this further option to make unlimited straws per year be extended for a further two years – that is, till June 4th, 2008.
>
> 2. Royalty Rates.
>
> The original Agreement anticipated royalties at 10% but with minimums of $5 in the Territory (that is, China), and a minimum double royalty for exports – that is, everywhere other than China.
>
> It is now proposed that there will be a flat royalty rate of 10% of the true selling price to an arm's length third party, and with a flat minimum of $6 per product or service, no matter where sold.

> 3. Royalty Free Period for Sexed Embryos.
>
> The original Agreement granted a 12 month royalty-free period for the sale of sexed embryos, but this was complicated when China imposed a ban on imports and various other complications were also encountered.
>
> It is now proposed that the former royalty-free period is to be replaced by a new arrangement – whereby for the next one year, commencing immediately, IND will calculate and report the full royalty for sexed embryos as per (2) above, but IND need only pay to XY precisely one half of the full royalty, otherwise due. At the end of this one year period, IND will thereafter calculate, report and pay to XY the full royalty, precisely per (2) above.
>
> 4. Freedom to Sell Sorted Straws Internationally.
>
> As explained during our meeting, this is not a negotiating point, but simply a matter of quality assurance.
>
> If and when the XY scientific team, led by John Schenk, are comfortable to approve IND to export sexed straws, that is when I can formally grant the requested approval. I will now check whether you have already achieved this status, or whether my staff are waiting for some additional data before this approval can be granted to IND.
>
> 5. Third Sorter.
>
> As far as I can see, this is simply a business decision for IND to make, provided IND continues to fully comply with all the agreed guidelines for the production of sexed embryos or sexed straws, as contained in the formal agreements and in the above clarifications. I will now check with John Schenk to see where we are at, in relation to satisfying all the formal XY threshold criteria. Hopefully, there will be few, if any, further criteria for IND to still satisfy. Again, we will let you know, as soon as possible.
>
> I think that covers the main points we agreed in Vancouver.

[75] There was tension between XY and JingJing from the beginning. Dr. Jacobson wrote to Dr. Remillard on June 26, 2006, expressing frustration with the contractual relationship. The letter begins:

> I am concerned that once again, IND seems to be attempting to alter current agreements – just weeks after I came to Vancouver and we together reviewed and clarified all aspects of the relationship between XY and IND.

[76] He accused the defendant Ms. Zhou of altering the agreement that had been sent to IND:

> On June 21st, I received a fax from Selen Zhou, apparently sent with your approval, sending back the Vancouver agreement, duly signed by Selen for IND, but also altering it in a way never discussed or agreed, by adding a new paragraph in relation to royalty rates, different to what we agreed to in Vancouver.

Put simply, I do not do business that way.

[77] The rest of the letter expressed other frustrations:

> 5. On Friday, June 23, 2006, I called Selen to express my concern re the additional language I found added to the Vancouver agreement, and at that time Selen asked about another new issue – how would XY feel about IND custom sorting for Semex. I responded that these matters are complex, and IND should submit a formal request to XY and it will be reviewed by XY legal staff in the context of the current License provisions.
>
> I also pointed out to Selen that the additional language which IND sought to add to the Vancouver agreement conflicts with the prior agreements already made by XY – and that Canada is not USA, which is not China.
>
> 6. I have today also seen an email from you dated June 23rd, which is also disappointing, and misrepresents what I said. It is certainly true that each licensee pays a royalty to XY, but I never said that different licensees in different countries must pay at identical rates. Clearly, each country is different, with different human populations, different cattle populations, different genetic value of their bulls and different national economies.
>
> Reading further into your email, the details you provide re royalties applicable in China are all wrong – in reality, there is no licensee who is permitted to pay nothing, nor is there any licensee who pays $20,000 per sorter, nor is there any licensee who pays $1 per straw.
>
> 7. Finally, if you wish to come back into compliance with our agreements and to work with XY as you agreed in Vancouver, please respond as soon as possible to the email from Thom Gilligan dated June 23rd, 2006, which seeks the correct details of your past sales – for reporting, royalty and compliance purposes. Thank you.

[78] The CLA contained an obligation that the licensee not "sublicense to any third party any right to manufacture, use, offer for sale, or sell licensed product(s) without Licensor's prior written consent". This practice of sorting semen by sex for a third party is known as "contract sorting".

[79] In 2006, Ms. Zhou had asked Dr. Jacobson how XY would feel about JingJing contract sorting for Semex. He invited JingJing to make a formal written request to XY so XY's lawyers could review it.

[80] No such proposal was made. However, JingJing did enter into contract sorting agreements with Semex and Genervations in August 2006. JingJing later

began sorting for Accelerated Genetics. It is common ground that JingJing did not have the contractual right to engage in contract sorting.

[81] There is no doubt that the defendants were aware that their contract did not permit sorting semen for third parties. Dr. Remillard said as much in a June 1, 2007 email to Jesse Zhu, Selen Zhou and Shuli Wang (the wife of Jesse Zhu). He describes a meeting with a representative of SireLodge Inc. Part of the discussion was that IND could not "officially" sort semen for SireLodge Inc. because that would amount to sublicensing.

[82] On July 12, 2007, JingJing acquired a third cytometer.

The Litigation

[83] On October 12, 2007, XY instituted this action against JingJing alleging breach of the CLA and seeking damages. On March 20, 2008, XY began a second action, since joined with the first action, claiming damages against the IND defendants alleging conspiracy, deceit, breach of confidence, breach of contract, inducing breach of contract, interference with economic relations and unjust enrichment.

The Deception of XY

[84] JingJing's readiness to deceive XY is evidenced as early as February 18, 2004, just a few days after the CLA was signed. Dr. Remillard sent an email to Jesse Zhu, which touched on several matters. One of them was the sale of sexed semen in China.

> 5 – regarding sale of sexed semen in China (as discussed yesterday), we will have to be safe in this project. XY Inc. already sold two AI lisence [*sic*] in China. Dr. Jacobson told me (2 months ago) that many chinese companies know IND and consider as big competition for them. If we are involved in selling sexed semen in China .... those companies will report or complain to XY Inc and try to cause problem to IND. Small volume is not a problem, but if we expect to sell lots of doses, we better sit down with XY inc. and buy the AI lisence. Especially if we want to buy more and more machine [*sic*] to supply this market, Dr. Jacobson will know that we do not need 3 or 4 machines to only supply of IVF labs.
>
> I bet they have good lawyers too!!

[85] The import of this email is clear. The CLA did not permit the sale of semen. Dr. Remillard is saying there is a good reason to obtain an AI license. I take

"Small volume is not a problem" to mean they could get away with exporting small amounts without a license, but they should not try to export substantial amounts of semen. This would be detected by XY for two reasons: competitors would complain to XY; and three or four SX cytometers would look suspicious. The remark "I bet they have good lawyers too" was, to say the least, prescient.

[86] A further example of deception by Dr. Remillard, Selen Zhou, Tang Jin and Jesse Zhu is contained in the minutes of a meeting held on November 1, 2006, which was attended by Tang Jin, Selen Zhou and Dr. Remillard. Tang Jin has maintained that no sexed semen was sold in October, November or December 2006. This was ultimately conceded to be untrue. The company reported that 210 doses of sexed semen were sold in October 2006. Yet the minutes of this meeting contain this statement: "We only sold 1,350 doses of semen in October with revenue of US$55,000."

[87] Mr. Gilligan sent a provocative email to IND in which he suggested a royalty be paid on the semen used for IVF purposes as well as a royalty for the embryos themselves. This was not a requirement of the contract. It was suggested because of Mr. Gilligan's frustration.

[88] The defendants' response was to report falsely that there were no straws of sexed semen used for IVF purposes. In fact, they continued to make and send sexed semen to Québec where they produced sexed IVF embryos.

The False Reports

[89] In response to continuing demands by XY, the first sexed semen report was sent by JingJing on January 5, 2007. The first sexed embryo report was sent on March 12, 2007. Before the embryo report was sent, Selen Zhou circulated it to Jesse Zhu, Dr. Remillard and Tang Jin. The report is a false one. Beginning May 2007, the company sent Mr. Gilligan false reports regarding sexed semen and sexed embryos more or less monthly.

[90] Tang Jin gave unsatisfactory evidence respecting the reports of sexed straws and embryo production to XY that were required by the CLA. She said that she "did not report anything" for a few months since she was waiting for a decision by Jesse Zhu and Dr. Remillard. This was not true. She reported that the number was zero.

[91] Tang Jin later testified that JingJing provided a corrected report. That is not in fact what happened. The later report, in July 2008, still reported “zero” as the number of straws used for IVF purposes in October, November and December 2006.

[92] Tang Jin then insisted that the reports were in fact accurate. She did not, she said, send out any semen in those three months. That is not true. Eventually, in the course of cross-examination, she conceded that fresh semen was sent to Québec throughout October and that XY was told that nothing was sent.

[93] Dr. Remillard testified that the sexed IVF embryo report showed that 25,000 embryos had been produced. He said they actually produced 100,000 embryos in this period.

[94] XY did not know that the IND companies in North America had been making thousands of MOET (Multiple Ovulation and Embryo Transfer) embryos through its relationship with Abbotsford Veterinary Clinic and hundreds of thousands of sexed IVF embryos through its subsidiaries in Québec, Pennsylvania and California, and had been selling them to the IND Group’s affiliates in China for use in various joint ventures.

[95] For example, on September 28, 2007, Selen Zhou sent Thom Gilligan a report for August 2007. It indicated that the IND Group had produced 2,515 sexed embryos that month and a total of 58,038 since beginning embryo production, with 43,547 remaining in inventory. The evidence establishes that the IND Group produced at least 6,719 sexed embryos in one of their three IVF labs that month. JingJing sold 99,973 sexed embryos to IND Qingdao on August 20, 2007.

[96] XY did not learn about this until eight months after the litigation started, that is, in early 2009.

[97] Even when reports were made, Mr. Gilligan was skeptical as to their accuracy and challenged the reduced royalty on “B” type embryos. Mr. Gilligan’s email to Dr. Remillard on June 20, 2007, included the following:

> 1. Although IND did clarify the difference between “A” and “B” type embryos, Dr. Jacobson never agreed with any reduced royalty rate on “B” type embryos. It is still the position of XY Inc. that we are being underpaid on these ...

> ...
>
> 4. These reports must be an accurate and truthful representation of the "number of units of licensed product(s) made, used, sold, provided or otherwise disposed of ...

He went on to ask them to provide more details so that the numbers could be reconciled.

[98] On the same day, Dr. Remillard wrote to Jesse Zhu, Tang Jin and Selen Zhou outlining his concerns:

> Hi Everyone:
>
> As discussed before the number given to XY must match because they are looking at them really carefully to understand our use of the sex semen.
>
> Selen and Jin could reply to XY and cc me or draft the explanation and I will send it to XY.
>
> Richard

[99] Tang Jin's response to the other three members of management dated June 22, 2007, is revealing:

> In March 2003, XY sent IND 30 straws of sexed semen (from bulls of select sires held at CSU bull barn), and you reported the development of 430 blastocysts from those 30 straws. That is a ratio of 14.3 blastocysts per straw.
>
> Regarding this question, I think it is not big problem for IND, because that 430 embryos from 30 straws, but they are "A" "B" "C" total. So if over 50% is "C", two "B" equals "A"; then we did not have that many "A" and "B" in that time.
>
> For example: 430=40A + 90B + 300C; A+B=130/30=4.3 (ratio); this ratio is not big difference with 1.3 embryo per straw, but we still need consider about that, because was 4.3, not about 1.3.

[100] These numbers are entirely fictitious. Ms. Jin was simply showing how the numbers could be argued to be accurate. Dr. Remillard and Tang Jin's emails provide clear evidence of an intention on the part of management members to deceive XY.

[101] At approximately the same time, Mr. Zhu and Dr. Remillard were taking steps to challenge XY's patents in China.

[102] In 2006, Mr. Gilligan had sent Dr. Remillard a list of its patents in China. That was not something that Mr. Gilligan usually did, but he did so because Dr. Remillard asked for the information to assist JingJing in obtaining financing.

[103] In 2007, however, Dr. Remillard wrote to Mr. Zhu. The message of July 16, 2007 included: "You could see that some [of the patent applications] have been filed in China, but I'm not sure which ones. We cannot ask [XY] the question without raising a flag."

[104] A few days later, on July 20, 2007, Dr. Remillard wrote to Mr. Zhu again:

> This morning you said that three of the nine filed patents had been cancelled. I think it would be good to argue or complain for the other six. Do not use IND affiliated company to do it, too risky for our business in Canada or U.S.A.; use the unknown company in China.

[105] Dr. Remillard admitted in his evidence that he was aware that the contract with XY (the CLA) prohibited challenging the patents. He was proposing to do exactly that using the ruse of a separate company.

The Acquisition of XY by ST

[106] The acquisition of XY of by ST was cause for alarm to JingJing. ST had been a competitor of JingJing. Dr. Remillard's fear was that ST would want to eliminate competition from JingJing by cancelling the CLA. In an email dated May 23, 2007, Dr. Remillard articulated his concerns and admitted there could be grounds to terminate the agreement. The email is addressed to Jesse Zhu, Shuli Wang, Tang Jin and Selen Zhou. It reads in relevant part:

> I have more information regarding the XY license. Officially Sexing Technology from Texas did buy XY Inc. They want to control the sale of sexed semen worldwide. Since few years they offered service contract to different companies like ABS, Select Sire, Alta Genetic etc. Now their business plan is to be the only one company to sell sexed semen.
>
> To achieve that target, they will have to cancel the other licensees like IND. They don't want to spend money to buy back their license, they plan to visit everyone and find a breach in the agreement as stipulated in Section Five "Termination". ...
>
> I think that that situation with Texas is serious, <u>they could find many reason to terminate our license like, royalty fee on the IVF embryos (A and B quality), sorting period of time (more than 10 hours as approved by XY), service contract to SireLodge, no report on time for the sale (semen), etc</u>. It was easier to argue with XY even if Jacobson was really strict, at least

> they did receive money from IND. In the situation of Texas, they will NOT want to collaborate with IND, they will have ONE goal, terminate our license.
>
> We will have to be prepared and have all our files in order for an audit.
>
> Richard.
>
> [Emphasis added.]

[107] JingJing did not have to wait for an audit to bring about the termination of the license. The events began on July 31, 2007, when Dr. Remillard sent an email to Juan Moreno, XY's new president. Dr. Remillard sought to engage in semen sorting for Semex. He told Mr. Moreno that if XY did not approve the contract sorting, JingJing would sell the sorters and give XY the option to purchase them first. The email included this:

> On July 10, 2007, I have the opportunity to visit you and Maurice to discuss many different issues including the service contract for Semex ... Semex will sell the sorted semen and pay the royalty fee to XY Inc.
>
> IND did purchase a third machine to sort the semen based on the possibility to offer a service contract to Semex, but we are still waiting for your decision. If XY Inc. don't agree with that service contract, IND will not need three sorters and plan to sell two of them. As mentioned in our agreement signed with Dr. Jacobson, IND must give you the first option to buy back these two sorters for the same price we could get on the market. I want to inform you that we received an offer from a buyer in China at $500,000 USD per machine for a total of $1M.
>
> IND is not responsible to control what the buyer expected to do with those two machines, we will just sell them if you don't match the price.
>
> IND requests your final decision regarding the service contract for Semex within the next 10 days.

[108] This provocative letter was, not surprisingly, answered by XY's legal counsel on its behalf. Craig Miles informed JingJing that the proposed sorting for Semex Alliance would be a breach of the prohibition in the contract against sublicensing. He also advised that the sale of cytometers would be contrary to the CLA.

[109] On October 4, 2007, Dr. Remillard wrote to Mr. Moreno to advise that it was selling the cytometers to a purchaser in China. JingJing was purporting to provide XY with the first option to purchase them. The price was now $600,000 per machine.

[110] Mr. Moreno's response was direct and unambiguous. In an email dated October 9, 2007, he wrote:

> Dear Richard
>
> This email is in response to your fax of 10/4/2007 in regards to your desire to sale 2 Sperm Sorting Flowcytometers that you operate as a license of XY, Inc. I am formally requesting you to provide us with a translation to the attachment you provided in your fax (I am assuming it is a Purchase Order).
>
> We are hereby informing you that you will be in breach of your license agreement and your license will be terminated if those two machines are sold to China to an unlicensed and unauthorized user of our technology. By selling those instruments to unauthorized users your company impairs the future business of XY, Inc,
>
> When you purchased the instruments they were purchased under the terms and conditions of your license agreement and you seem to have misrepresented your position at the time since you are now appearing to be in the business of reselling instruments. You cannot become a reseller of instruments under our license agreement.
>
> Our legal counsel has already informed you (letter dated August 17th, 2007) that the sale of this instruments would impair XY, Inc rights in China because it devalues licenses already granted to other parties in China and makes more difficult the recruit of other licensees in China. You will be inducing infringement by thirds parties by selling this equipment to unlicensed companies. Because we have provided you prior notice and if you continue to pursue the sale of this instruments you would leave us with little recourse but to take legal action and proceed to recover damages.
>
> If you have an interest in selling your equipment there are several licensees that would be interested in purchasing the equipment at Fair Market Value. Fair Market Value is determined by the sales price of new instrumentation and the appropriate depreciation for used equipment.
>
> Regards
>
> Juan F Moreno
> Co-CEO XY Inc.

[111] The defendants produced the offer for two machines. The English translation of the Chinese offer reads as follows:

> To: IND Lifetech Inc.
> [Mr. Zhu]
>
> After a number of telephone conversations with you, we form a high regard of the use of your high-tech method to improve the Dairy business in China. We would like the opportunity to collaborate with you.
>
> Also, as discussed on the phone, we are very interested in purchasing two Dako MoFlo equipment. The purchase is in connection with a cooperation opportunity between a subsidiary of the Shanghai Municipal Government and us, the KunPeng Company. We have seriously considered the purchase price you offered and believe the price of US$500,000 is

> completely reasonable for consideration. We hereby formally issue a request to purchase.
>
> With respect to the details of the purchase, we would like to conclude the negotiation as soon as possible. Our fundamental terms are as follows:
>
> 1. The two equipment must be capable of normal operation;
> 2. The purchase price is CIF Shanghai;
> 3. All the expenses associated with the purchase will be borne by you;
> 4. You must provide at least 1-year warranty for the parts and components;
> 5. The purchase price may be paid in either RMB or USD;
> 6. The delivery date must be no later than October 31, 2007.
>
> Please advise if the above terms are acceptable to you. We are looking forward to hearing from you.
>
> KunPeng Investment Company Limited
> Director / President [Mr. Liu]
>
> July 19, 2007

[112] I am persuaded that this letter was written entirely for the benefit of XY, that is, to attempt to convince it that a *bona fide* offer from a third party had been made.

[113] Dr. Remillard replied to Mr. Moreno's October 9, 2007, email, by fax on October 10, 2007:

> Dear Juan,
>
> ... While I understand our contractual obligations, we have no choice but to sell these machines since you are not allowing us to generate revenue from Semex. We have also obtained a legal opinion on this contract and per 6.1.2, the onus is on XY to proof [sic] why it reasonable believes by selling to the third party, it would impair or diminish the Technology or the Proprietary Rights since the Technology had not been patented in China. In this particular case, we do not agree.
>
> ...
>
> We do not believe we have breached any of the contractual obligations, and therefore, you have no right to terminate our license...

[114] Then, In an email to Jesse Zhu and Selen Zhou, dated October 12, 2007, Dr. Remillard wrote:

> Jesse
>
> I talked with Thom Gilligan today and the expiration date for the Johnston's patent is May 2009. The difference is that they take the "priority" date, the

> first time when they filed it (1989) and not the 1991 as mentioned on the website.
>
> He also told me to check my "back" regarding the selling of the machines to China. I told him that we requested a signed document from the buyer that they will not use the machines for semen sorting. He said, to be sure, we must remove the nozzle, tip, software, the 2 sensors placed at 90 degrees because they are specific for semen sorting.
>
> Richard

[115] On October 12, 2007, XY commenced this action against JingJing. That evening it obtained an *ex parte* interim injunction against JingJing, restraining it from transferring, selling, leasing, disclosing or in any way disposing of the DakoCytometers or the confidential information.

[116] On October 30, 2007, the court heard the application for an interlocutory injunction *de novo*. The evidence before the chambers judge included the affidavit of Cynthia Coughenour, an officer of DakoCytomation Ltd. She deposed:

> 6. ... Dako does not sell any MoFlo® SX cytometer to any party not licensed by XY. Used MoFlo® SX cytometers cannot be converted to sort semen without using XY's proprietary technology. Dako would not sell the parts necessary for such a conversion except to a licensee of XY.

The court concluded that the balance of convenience favoured making the order. It limited somewhat the terms of the earlier *ex parte* injunction: see *XY, Inc. v. IND LifeTech, Inc*., 2007 BCSC 1666. The terms of the order were:

> 1. This court's order of October 12, 2007 in the within action is vacated;
>
> 2. The defendant, by itself, its directors, officers, servants, agents or any company owned or controlled by them, are restrained from selling to any third party any DakoCytomation, Inc. MoFlo® SX flow cytometer or any part thereof that uses the technology for the SX designation, until further order of the court;
>
> 3. If the plaintiff does not initiate an arbitration on or before December 7, 2007 pursuant to ss. 604 of the *Commercial License Agreement* which is the subject matter of these proceedings, or if the plaintiff fails to proceed diligently to conclude the arbitration thereafter, or promptly comply with the award of the arbitrator, the defendant will be at liberty to apply to vary or vacate this order; and
>
> 4. Costs will be in the cause.

[117] On or about December 6, 2007, XY served a demand for arbitration on JingJing pursuant to art. 6.4 of the CLA.

The Sale of JingJing

[118] On January 1, 2008, all the shares of JingJing were sold to Liu Zhen Hong and Shu Xi Wang, both of whom live in China. The sale is a curious one.

[119] Shu Xi Wang is the brother-in-law of Mr. Zhu. Liu Zhen Hong is a friend of Mr. Zhu. There is no evidence that Liu Zhen Hong ever visited JingJing's premises or had any involvement in the affairs of the company. JingJing continued to be managed by the IND Group.

[120] The agreement for the purchase and sale of the shares appears to lack, to use the plaintiff's words, commercial reality. Curiously, a condition of the sale was that it would only go ahead if JingJing's settlement negotiations with XY failed. Moreover, Jesse Zhu admitted in cross-examination that the share transfer was to avoid liability in this litigation.

[121] Jesse Zhu was cross-examined at length about whether the purchasers were told of JingJing's false reports to XY, and therefore the liability of JingJing to XY. His answers were vague and evasive.

[122] Mr. Zhu was unable to even tell the court whether the funds for the summary judgment, US$472,000 that were paid into court, came from JingJing or some other entity.

[123] Dr. Remillard sent a telling pair of emails on February 26 and 28, 2008. In the first one, he wrote to Tang Jin asking for figures to report to the Canadian Embryo Transfer Association. He wanted to know the number of embryos produced in the IVF lab and the number of embryos exported. Two days later, he wrote as follows:

> I forgot to mention that the number must be close to the real ones because Dr. Moreau is on the Certification Committee (CETA) and he will have access to the number.
>
> Remember that we did export close to 100,000 IVF embryos in Dec 2007.
>
> Last year we did report 126,750 IVF embryos produced from Jan 01, 2006 to Dec 31, 2006.

This amounts to having two sets of books, one to report to XY and one for other purposes.

Wagyu Embryos and the Québec Lab

[124] In March 2008, the IND Group closed the Québec lab. This was apparently done to stymie employee efforts to unionize.

[125] The lab reopened three months later. Selen Zhou testified that when it reopened, it began to produce unsexed Wagyu IVF embryos.

[126] Dr. Remillard explained that Wagyu is a breed of cattle which produces an expensive, desirable beef known as Kobe beef.

[127] According to Selen Zhou, after March 2008, IND Embryontech did not produce any sexed IVF embryos. This is consistent with Québec production records produced by the defendants.

[128] Tang Jin's evidence is that the source of the Wagyu semen was a bull which JingJing purchased and kept at Westgen in Langley. She testified the semen was frozen in Delta and shipped to Québec in 2005 or 2006.

[129] Dr. Remillard, on the other hand, testified he was never told that the Québec lab stopped producing IVF Holstein embryos, and began making Wagyu embryos. Significantly, he signed the Canadian Food Inspection Agency certificate required for exporting IVF embryos to China. In doing so, he certified that the semen was approved for export both by China and Canada:

> The semen used for the production of bovine embryos originated from semen production centres approved by both AQSIQ and CFIA and met the conditions for export from Canada to the Peoples' Republic of China.

[130] The embryos identified in that document were produced both before and after the three-month closure. It is plain to me that the Québec lab was producing Holstein IVF embryos, not Wagyu embryos as the production records indicate. There is no suggestion that Wagyu embryos are approved for export or wanted by the defendants' customers in China.

[131] Mr. Zhu's evidence casts further doubt on the evidence of Selen Zhou and Tang Jin. When the trial resumed in February 2011, after a ten-week adjournment, he testified that Wagyu semen was only used for a short period of time, until August or September 2008. He maintained that the Québec lab was producing

Holstein IVF embryos. He testified that the lab was using semen, both sexed and unsexed, which it purchased from Semex.

[132] No documents were produced concerning this purchased semen.

[133] The inference is an obvious one: this is another instance of the defendants deceiving XY by falsifying their production records. They were producing sexed IVF embryos in Québec and falsified production records to indicate that they were not doing so.

The Current Proceedings

[134] On March 20, 2008, XY commenced a second action in this Court. It claimed damages against JingJing and a number of other defendants alleging conspiracy, deceit, breach of confidence, breach of contract, inducing breach of contract and interference with economic relations.

[135] On April 1, 2008, JingJing filed an action in the United States District Court for the District of Colorado seeking a preliminary and permanent anti-suit injunction. It sought a preliminary interlocutory anti-suit injunction. This was dismissed by the court on May 13, 2008.

[136] On July 14, 2008, the parties agreed to consolidate the two British Columbia actions and the arbitration, and dismiss the Colorado action, all to be heard together in this consolidated action.

[137] In July 2008, the court heard another injunction application from the plaintiff (*XY, Inc. v. IND Lifetech Inc.*, 2008 BCSC 1215). XY sought to enjoin various IND companies from using confidential information that had been obtained through the CLA. The plaintiff's contention was that JingJing was planning with the other defendants to set up a sperm sorting operation in China. However, the court was not satisfied that JingJing intended to disseminate confidential information (para. 94). The application was dismissed.

[138] In July 2008, the defendants purported to correct their errors and produce an accurate report. Selen Zhou wrote as follows: "Attached please find the June reports of sexed semen and sexed IVF embryos. We have corrected the IVF embryos report as attached. Please let us know if any questions."

[139] In August 2008, XY's counsel wrote to JingJing. XY alleged various breaches of the CLA. Pursuant to clause 5.1.2 of the CLA, it gave JingJing thirty days to cure these breaches. The letter included a demand that JingJing pay XY US$1,650,560.76 within 30 days.

[140] In JingJing's reply, many of the assurances demanded were given. JingJing took issue with the amount owing. It tendered to pay US$472,671 based on its understanding of the correct method of determining when payments are due:

> JingJing hereby tenders to pay to your client the sum of USD472,671.00 (the "Payment") in payment of all royalties due under the License Agreement to September, 2008. This amount reflects the "pay when used" calculation, and is comprised of the following:
>
> (a) USD200,919.00 (royalties payable on 49,871 embryos used to December 30, 2008, subtracting the $20,616 paid previously); and
>
> (b) USD244,542.00 ($6.00 per AI straw royalty) payable on sexed semen to September 30, 2008.

[141] On November 17, 2008, XY's counsel wrote to JingJing terminating the CLA. This led to the counterclaim by JingJing, which is described below.

[142] XY then brought an application for summary judgment of the amount JingJing had conceded that it owed: US$472,671.

[143] Summary judgment was granted: see *XY, Inc. v. IND Lifetech, Inc.,* 2009 BCSC 453. The chambers judge applied the principle discussed in *Alex Gair & Sons Ltd. v. Canada (Army, Navy and Air Force Veterans, Steveston Unit No. 284*) (1983), 37 C.P.C. 203 (B.C.S.C.), stating at para. 39:

> Where a defendant admits that it owes a certain sum to the plaintiff, and purports to tender that sum that the plaintiff accept it in consideration of all amounts owing, the plaintiff is entitled to summary judgment for the admitted sum, and to pursue the remainder of its claims at trial.

The chambers judge ruled, however, that execution could not take place until after the trial in this matter.

[144] On February 16, 2009, JingJing filed a counterclaim, alleging that XY had breached the CLA by terminating the CLA unlawfully, by breaching its duty of good

faith to JingJing, and by failing to provide JingJing with intellectual property that it developed during the term of the CLA.

[145] On March 24, 2009, the IND Group and the individual defendants Jesse Zhu, Tang Jin and Selen Zhou filed a counterclaim. They claimed that XY's three-month delay in setting down a hearing of a motion for an expanded injunction interfered with the public share offering and reverse takeover transaction they had planned for members of the IND Group. Further, as a result of this interference and a weakening in the stock market during the period leading up to the application, they claimed to have suffered a loss.

[146] On March 5, 2010, I granted a motion by JingJing to add ST as a defendant to its counterclaim. The allegation was that ST procured XY's alleged breaches of the CLA.

[147] On August 4, 2010, XY brought a motion to strike the JingJing counterclaim and the IND Group's counterclaim. On September 23, 2010, the JingJing counterclaim was settled. On September 24, 2010, the IND Group's counterclaim was dismissed.

The Rule in Browne v. Dunn

[148] The defendants argue that I should apply the rule in *Browne v. Dunn* because they were not given an opportunity "to explain their evidence once challenged" or "an opportunity to comment on any facts or theory of the case that is contrary to the evidence in question.

[149] The principle stated in *Browne v. Dunn* (1893), 6 R. 67 (H.L.), is that if one intends to impeach a witness by calling contrary evidence, one must give an opportunity to the witness to explain the contradiction by telling the witness the nature of the evidence that is intended to be called. Lord Herschell put it this way in *Browne v. Dunn*, at 70:

> Now, My Lords, I cannot help saying that it seems to me to be absolutely essential to the proper conduct of a cause, where it is intended to suggest that a witness is not speaking the truth on a particular point, to direct his attention to the fact by some questions put in cross-examination showing that that imputation is intended to be made, and not to take his evidence and pass it by as a matter altogether unchallenged, and then, when it is impossible for him to explain, as perhaps he might have been able to do if such questions had been put to him, the circumstances which it is

> suggested indicate that the story he tells ought not to be believed, to argue that he is a witness unworthy of credit.

[150] The defendants specifically argue:

i. Mr. Zhu never had an opportunity to explain why the sale of his shares in JingJing was not a sham;

ii. Mr. Zhu never had an opportunity to explain whether he intended on "moving the entire operation to China";

iii. the defendants never had the opportunity to testify about their total capacity to produce embryos;

iv. the defendants never had the opportunity to testify about the total number of embryos they produced;

v. Dr. Remillard never had the opportunity to testify about the accuracy and reliability of the CFIA documents;

vi. the information in the embryo implant table, Exhibit 71, had not been challenged;

vii. the information in the waybills about the number of containers used and their weight, was not put to the appropriate person (Tang Jin or Selen Zhou), but only to Jesse Zhu.

[151] The gist of the defendants' objection is that the plaintiff pointed to evidence during the trial that contradicted the defendants' testimony on the above aspects of the case, while not giving the defendants the opportunity to explain the contradictions in cross-examination. This, it is alleged, unfairly undermined the defendants' credibility on their testimony.

[152] As the plaintiff submits, "[u]nfair surprise is the issue": see *Stewart v. Canadian Broadcasting Corp.* (1997), 150 D.L.R. (4th) 24, at 179 (Ont. C.J. (Gen. Div.), citing *Palmer v. The Queen*, [1980] 1 S.C.R. 759 at 782). The issue is whether the defendants were unfairly surprised by evidence presented by the plaintiff that sought to undermine their credibility.

[153] The plaintiff argues that the issues the defendants complain about were apparent throughout the litigation. It says its statement of claim specifically put the defendants on notice that their credibility and the truth of any statement made by them is at issue, via its pleadings of:

- conspiracy
  - to falsify books of account and production reports (para. 38);
  - to convert ordinary cytometers to SX cytometers and relocate to China, sell SX cytometers and misuse confidential information (paras. 41-43);
  - to manufacture the artificial sale of INDLifetech (Jing Jing) (para. 56);
  - to use XY's confidential information in China or elsewhere including misuse of spare SX cytometer parts to produce embryos in China (paras. 57 and 60);
  - to create fraudulent documents and reports, including monthly embryo reports for XY (paras. 61-65);
  - to use Sex-Selected Inseminates without paying royalties (para. 69);
  - to make a profit by misappropriating confidential information (para. 75);
  - to avoid paying royalties to XY (para. 76);
- deceit:
  - based on false reports and other documents used to mislead XY about production, export and use of embryos, resulting in damages (para. 77);
- breach of confidence:
  - related to confidential information XY gave to IND BC (JingJing) for limited purposes, which JingJing misused, passing it on to other defendants who knew/ought to have known the information was in breach of confidence (paras. 79-88);
- breach of contract:
  - contract sorting;
  - selling Sex-Selected Inseminates and Sex-Selected Embryos with end-user licenses;
  - failing to pay royalties;
  - falsifying and otherwise failing to report on licensed products made, used, sold, provided, disposed of;
  - falsifying and otherwise failing to keep accurate books of accounts and records;
  - unauthorized disclosure of confidential information (paras. 90-92).

[154] Furthermore, the plaintiff points to the statement of defence, which shows the defendants' awareness of these issues via its denial of the claims listed above and the underlying allegations.

[155] As well, in the Document Agreement, the plaintiff says it explicitly alerted the defendants to the fact that "[t]he Plaintiff does not agree that the [embryo production records] are comprehensive or reflect the Defendants' total production of sexed embryos."

[156] Finally, the plaintiff argues that its counsel specifically addressed the issues during the trial that the defendants now argue were not put to them.

i. Mr. Zhu never had an opportunity to explain why the sale of his shares in JingJing was not a sham

[157] The plaintiff lays out that Mr. Zhu was asked by plaintiff's counsel:

- whether he agreed with counsel that "the purpose for this share transfer agreement was to avoid liability in this litigation"; and
- whether "your understanding of the company's position was that the sale was to protect the IND Group from liability versus XY, Inc. ..."

[158] Furthermore, the plaintiff states that it suggested to Mr. Zhu that:

- the share sale was created in order "to isolate [JingJing] from the IND Group of companies because of XY's claims"; and
- that Mr. Zhu "isolated JingJing from the IND Group of companies to avoid paying the royalties to XY".

ii. Mr. Zhu never had an opportunity to explain whether he intended on "moving the entire operation to China"

[159] Regarding "moving the entire operation to China", the plaintiff argues that it did not raise this in questioning to any defendant because this "is not the plaintiff's theory" – rather, the plaintiff's theory rests on the allegation that "the IND companies tried to set up a semen sorting operation in China without disclosing that to XY".

iii. the defendants never had the opportunity to testify about their total capacity to produce embryos;

[160] The plaintiff refers to transcripts in which its counsel specifically asked the defendants about their production capacity, including Mr. Zhu (regarding JingJing's promotional documents) and Ms. Zhou (concerning an IND Group's promotional web page for the Pennsylvania lab).

iv. the defendants never had the opportunity to testify about the total number of embryos they produced

[161] The plaintiff refers to the questioning and testimony of Tang Jin, in which the authenticity and reliability of the embryo implant table was explicitly challenged. The transcript reveals that plaintiff's counsel stated to Tang Jin, "I suggest to you that you prepared this revised report to partially disclose embryos...in July 2008"; counsel further asked whether Tang Jin had ever attempted "to verify any of the information in the chart" or if she had "ask[ed] to see any underlying information at all about this chart."

[162] The plaintiff further contends that the only reason the embryo implant table was in discussion at all was because Tang Jin brought it up to justify the basis for the July 30, 2008 embryo report. Thus, the plaintiff was not required to challenge it in any event, although it did.

v. Dr. Remillard never had the opportunity to testify about the accuracy and reliability of the CFIA documents

[163] The plaintiff states that Dr. Remillard and Tang Jin were both asked about the difficulty involved in checking the number of embryos after the straws are frozen in Québec, thereby raising the issue of the accuracy and reliability of the records. Dr. Remillard was also "asked about and testified about how it was possible to falsify CFIA export certificates, and the serious professional consequences of getting caught doing so."

[164] The plaintiff argues that Dr. Remillard and the defendants generally had the opportunity to provide their explanation for the CFIA records, that defendants' counsel cross-examined Dr. Remillard on the point and that plaintiff's counsel also asked him to confirm his evidence.

vi. the information in the embryo implant table, Exhibit 71, had not been challenged

[165] The plaintiff relies on the authority from *R v. Biniaris* (1998), 104 B.C.A.C. 203 (C.A.), that allows it to contradict Dr. Remillard's evidence, even though he was called by the plaintiff. The plaintiff states that *Biniaris* stands for the principle that a "party who calls a witness is not permitted to prove he is wholly unworthy of credit but is free to contradict him as to particular facts."

[166] In response to this, the defendant contends that the plaintiff failed to note the further discussion by Hall J.A. in *Biniaris* in which it was stated at para. 16:

> There is, of course, a duty on counsel, if evidence concerning a transaction is to be attacked by diametrically opposing evidence that is intended to be led, to have the attention of the witness drawn to the matter to enable the witness to make a response to such suggestions.

[167] The plaintiff contends that it merely pointed out conclusions that could be drawn from Dr. Remillard's evidence, even where such conclusions may contradict his direct evidence and that it did not present any "diametrically opposing evidence". Further, as discussed above, Dr. Remillard's attention was sufficiently drawn to the issue of the accuracy and reliability of the CFIA records in order to permit him to explain the plaintiff's suggestion that they were inaccurate and unreliable.

vii. the information in the waybills about the number of containers used and their weight, was not put to the appropriate person (Tang Jin or Selen Zhou), but only to Jesse Zhu

[168] The plaintiff argues that defendants' counsel cross-examined Dr. Remillard about this very issue; Dr. Remillard is asked whether the statement: "we imported 200,000 cows' sexed semen embryos from IEI company to China in one shipment to avoid the recurrence of the risk" is correct. Dr. Remillard concedes it is not.

[169] The plaintiff further states that Mr. Zhu was asked about the 2006 shipment at length and was also directly challenged on the issue; plaintiff's counsel put to Mr. Zhu: "it's the plaintiff's position that your companies imported approximately 200,000 embryos in 2006", and Mr. Zhu answered "I don't agree, absolutely."

[170] The plaintiff argues that its counsel also put the issue to Tang Jin.

[171] Overall, the plaintiff contends that this is a difficult argument for the defendants to make, given that "the material waybills were only disclosed by the defendants on February 8, 2011 (during the plaintiff's cross-examination of Jesse Zhu, the last witness the defendants called)."

Conclusion on the Rule in Browne v. Dunn

[172] As the plaintiff contends, it did not call any witnesses or present any evidence to contradict the defendants' testimony. The contradictory evidence came from the defendants' themselves, their own admissions on discovery, in documents authored by the defendants, or otherwise common books of documents already entered as exhibits.

[173] Moreover, after reminding her counsel during submissions on the rule in *Browne v. Dunn* that Tang Jin could be recalled to remedy any potential unfairness, counsel declined, despite the fact that Tang Jin was in the courtroom at the time.

[174] I conclude that the defendants were adequately aware of the live issues at trial and that their credibility on these issues was in question. The defendants were given notice of the live issues at trial via the originating documents. The nature of the testimony was of such a nature that it was obvious that credibility was in issue. No "unfair surprise" has been visited upon any of them. They were not prejudiced in giving their side of the story.

Credibility of the Personal Defendants

[175] Credibility is a central question in this case. It was Jesse Zhu, Tang Jin and Selen Zhou, along with Dr. Remillard, who decided what to report to XY and what not to report. The defendants have conceded they failed to meet their obligation to produce documents. It is also clear that many of the documents produced misstate the production and the royalties owing. Thus, there is no objective evidence to corroborate the defendants' testimony.

[176] Tang Jin was not forthright. She is obviously intelligent, but when asked by counsel for the plaintiff about significant events, she often stated that she did not recall. Her lack of recollection was unlikely. Moreover, Tang Jin made much of a distinction between creating inaccurate reports and creating false reports. She

agreed that reports made to XY were not accurate, but refused to accept that they were false. Tang Jin's evidence concerning the Wagyu embryos was similarly unsatisfactory.

[177] Selen Zhou's evidence was entirely unsatisfactory as well. She effectively changed her story during testimony to suit the defendants' changing theory of the case and evaded questions that attempted to clarify the differences. Her testimony was confusing and misdirected. Like Tang Jin, she made much of a distinction between 'inaccurate' and 'false' reports. Furthermore, she knew that the embryo reports were false, but sent them on anyways.

[178] Jesse Zhu's evidence was similarly confusing and self-contradictory. Moreover, he was the recipient of many emails from Dr. Remillard, Tang Jin and Selen Zhou which contain cogent evidence of the deception of XY and which are consistent with the plaintiff's claim.

[179] It is significant that there is no evidence of any reply by Jesse Zhu, either orally or in writing, which refutes this evidence. Moreover, he did not deny receiving the many emails addressed to him. These emails, taken together, are inconsistent with his testimony.

[180] Jesse Zhu was part of meetings with Selen Zhou, Tang Jin and Dr. Remillard concerning false reports to XY. Dr. Remillard's evidence is that all four of them had discussions about how many embryos to report to XY.

[181] In summary, I do not find Selen Zhou, Tang Jin or Jesse Zhu credible. All three of them gave extensive evidence in the trial. They consistently sought to avoid liability by, in many cases, denying what was obviously true and, in others, by minimizing the failure of JingJing to make accurate reports to XY and to pay it accordingly.

[182] Dr. Remillard has settled his dispute with XY. He has agreed to give honest testimony regarding his involvement with JingJing. Dr. Remillard, I conclude, was concerned about his reputation and potential liability. He made a calculated decision to describe in candid terms the actions of JingJing, Jesse Zhu, Tang Jin and Selen Zhou.

[183] The comments of O'Halloran J.A. in *Faryna v. Chorny,* [1952] 2 D.L.R. 354 at 357 (B.C.C.A.), are particularly apt:

> ... In short, the real test of the truth of the story of a witness in such a case must be its harmony with the preponderance of the probabilities which a practical and informed person would readily recognize as reasonable in that place and in those conditions. Only thus can a Court satisfactorily appraise the testimony of quick-minded, experienced and confident witnesses, and of those shrewd persons adept in the half-lie and of long and successful experience in combining skilful exaggeration with partial suppression of the truth. Again a witness may testify what he sincerely believes to be true, but he may be quite honestly mistaken. For a trial Judge to say "I believe him because I judge him to be telling the truth", is to come to a conclusion on consideration of only half the problem. In truth it may easily be self-direction of a dangerous kind.
>
> The trial Judge ought to go further and say that evidence of the witness he believes is in accordance with the preponderance of probabilities in the case and, if his view is to command confidence, also state his reasons for that conclusion. The law does not clothe the trial Judge with a divine insight into the hearts and minds of the witnesses. And a Court of Appeal must be satisfied that the trial Judge's finding of credibility is based not on one element only to the exclusion of others, but is based on all the elements by which it can be tested in the particular case.

[184] Dr. Remillard's evidence is, in the words of O'Halloran J.A., in "harmony with the preponderance of the probabilities". The evidence of Jesse Zhu, Tang Jin and Selen Zhou, with respect to JingJing's dealings with XY, is not.

Plaintiff's Claims Against the Defendants

[185] The plaintiff pleads the following alternative causes of action:

(a) breach of contract;

(b) breach of confidence;

(c) inducing breach of contract;

(d) deceit;

(e) conspiracy; and

(f) unjust enrichment.

[186] The standard of proof, unless stated otherwise, is the civil standard – proof on a balance of probabilities: *F.H. v. McDougall*, 2008 SCC 53 at para. 49.

(a) Breach of Contract

[187] The defendant JingJing is in obvious and substantial breach of contract, the CLA.

[188] The breaches take several forms, which can be listed as follows:

- failure to keep accurate records in accordance with article 3.3;
- failure to produce accurate records in accordance with article 3.4;
- failure to report production to XY on a monthly basis in accordance with article 3.1.4;
- failure to pay royalties monthly in accordance with articles 3.1.1 and 3.1.4;
- failure to not sub-license the use of XY's technology in accordance with article 2.6;
- failure to disclose and assign developments made with third parties using XY's technology in accordance with articles 6.2.2 and 6.2.3;
- failure to maintain the confidentiality of XY's confidential information in accordance with article 3.10.

Reporting and Royalty Payment Breaches

[189] Article 3.3 of the CLA requires JingJing to maintain "accurate books of account and records covering all transactions" related to the CLA. The record-keeping requirement included JingJing's fundamental obligation to maintain accurate records of the licensed products that JingJing produced using XY's technology, as these records formed the basis of gross receipts and the resulting royalty payments. Further, article 3.4 gives XY the right to "audit and examine the records and the premises" of JingJing in order to determine whether JingJing was complying with the CLA. Both articles 3.3 and 3.4 were breached as, in the first case, JingJing failed to maintain accurate records throughout its relationship with XY, providing falsified records instead; in the second case, JingJing failed to produce any verifiable records to XY for any audit or examination, despite XY's repeated requests.

[190] JingJing's falsified record keeping and reporting regime allowed it to breach the royalty provisions of the CLA.

[191] Article 3.1.1 sets out the royalty payment scheme of the CLA:

> [JingJing] shall pay to [XY] ...
>
> b. a royalty of ten percent (10%) of all Gross Receipts, but: i) not less than the Minimum Licensed Product Royalty Amounts set forth by Exhibit D for listed Licensed Product(s), and ii) in each year not less than the Minimum Annual Royalty Amounts set forth in Exhibit D, irrespective of any amount paid by any end user; and
>
> c. double the above royalty percentage on any Gross Receipts generated outside the Territory or outside the Field of Use, but not less than double the Minimum Licensed Product Royalty amount set forth by Exhibit D for listed Product(s). This shall not, however, be construed to expand any license rights beyond the Territory or beyond the Field of Use.

[192] Article 3.1.4 of the CLA states:

> 3.1.4 All royalties to be paid by Licensee pursuant to this License Agreement shall be reported and remitted to Licensor within thirty (30) days of the end of each calendar month and any minimum royalty amount owed Licensor shall be paid within forty five (45) of the end of each consecutive twelve (12) month period from the effective date of this License Agreement....

[193] In breach of the above provisions of the CLA, JingJing based its royalty payments on falsified records and, even so, did not provide payments monthly as required. Article 3.1.4 continues:

> Remittance of all royalty amounts reported to Licensor or any minimum royalty amount shall be in United States dollars with conversion of any foreign currency to United States dollars made at the closing exchange rate on the last business day of that applicable reporting period in accordance with the currency exchange rate published in The Wall Street Journal for that date by either United States dollar wire transfer, or by check or bank draft, drawn on United States Banks and such remittance of any royalty amount shall not be set off against any obligation owed by or claimed against Licensor. A written report shall be submitted each pay period whether or not any royalties are due Licensor and such written report shall set forth an itemized accounting of the number of units of Licensed Product(s) made, used, sold, provided, or otherwise disposed of; price per unit of Licensed Product(s); each deduction taken; and any other itemization of account or other information requested by Licensor to ascertain the determination of Gross Receipts or the amount of royalties reported and such written report shall further provide a summary statement of the total royalties paid to date for that year and whether the royalty

> payment to the Licensor for that year was paid on Gross Receipts or was paid by Licensee as a minimum royalty to maintain the license under this License Agreement.

[194] It is clear that, under the CLA, JingJing was obligated to submit reports to XY on a monthly basis. For the period of October 2006 until March 2007, JingJing failed to report its production numbers at all. From March 2007 until 2008, JingJing reported false numbers. Thus, for the period of October 2006 to March 2007, JingJing breached its obligation under the CLA to report its production to XY; for the entirety of the period of October 2006 to June 2008, JingJing breached its obligation under the CLA to pay royalties according to its production of licensed products using XY's confidential technology.

Notification and Assignment of Research and Improvement

[195] JingJing is in breach of articles 6.2.2 and 6.2.3 of the CLA:

> 6.2.2 It is understood that Licensee's access to the Technology or the Proprietary Rights along with Licensee's best efforts to develop and commercialize Licensed Products (including the efforts of any independent contractor, employee, affiliate, subsidiary, or any third party) may result in Improvement(s) and Licensee agrees to give prompt notice to Licensor of all such Improvement(s).
>
> 6.2.3 To allow efficient development and utilization of such Improvement(s), Licensee agrees to assign all right, title, and interest in and to any Improvement(s) to Licensor, and Licensor agrees to grant Licensee and all then existing licensees a non-exclusive license in and to such Improvement(s) under the terms of this License Agreement at no additional cost to Licensee.

[196] JingJing performed research and developed improvements in the areas of collecting and preparing cattle semen, production of embryos and cryogenic storage of cattle semen and embryos.

[197] Article 6.2.2 required JingJing to give XY notice of these improvements. Article 6.2.3 required JingJing to assign title to such improvements to XY.

[198] Instead JingJing refused to disclose or assign the results of their research and, as such, are in breach of the CLA.

[199] Finally, article 2.6 required JingJing "not to sublicense to any third party any right to manufacture, use, offer for sale, or sell Licensed Product(s) without [XY's]

prior written consent." The use of XY's technology to produce sexed IVF embryos at the IND Embryontech lab in Québec is in breach of this provision. There were further suggestions by the plaintiff that sub-licensing and use of XY's property had also taken place in China, but the evidence in this respect is inconclusive.

[200] Finally, JingJing is in substantial breach of article 3.10, which holds JingJing to confidentiality respecting all of the information and technology conveyed by way of the CLA. This matter will be addressed in the Breach of Confidence section, below.

(b) Breach of Confidence

[201] The plaintiff claims against all the defendants in breach of confidence and seeks a permanent injunction to restrain the use of XY's confidential information allegedly in the hands of the defendants. The plaintiff argues that a permanent injunction is warranted because to deny such a remedy "would be to permit the defendants to sort semen using their intimate knowledge of XY's equipment and protocols, without paying royalties to XY, and in competition with those other licensees in China, Canada or elsewhere who do not pay royalties to XY."

[202] The general principle underlying breach of confidence is that where a person obtains information in confidence, the person may not use the information for activities detrimental to the person who makes the communication: *Terrapin Ltd. v. Builders' Supply Co. (Hayes) Ltd.* (1959), [1960] 5 R.P.C. 128 (C.A.). It is an equitable cause of action, rather than a tortious one: *Economic Interests in Canadian Tort Law* (Peter T. Burns and Joost Blom (Markham: LexisNexis, 2009)) ("*Economic Interests*") at 213. The wrong is comprised of three elements: (a) the information conveyed was confidential; (b) it was communicated in confidence; and (c) it was misused by the party to whom it was communicated: *Coco v. A.N. Clark (Engineers) Ltd.,* [1969] R.P.C. 41 at 47 (U.K. ChD.), cited by La Forest J. in *Lac Minerals Ltd. v. International Corona Resources Ltd.,* [1989] 2 S.C.R. 574 at 635-36.

[203] Material can remain confidential even though it is available to the public. "[W]hat makes it confidential is the fact that the maker of the document has used his brain and thus produced a result which can only be produced by somebody who goes through the same process": *Saltman Engineering Co. Ltd. v. Campbell*

Engineering Co. Ltd. (1948), 65 R.P.C. 203 (U.K.C.A.) at 215, quoted with approval by Sopinka J., dissenting in part, in *Lac Minerals Ltd.* at 610.

[204] Where a contract exists between the parties, as in this case, the terms of the contract are relevant to determining the availability of a claim for breach of confidence. In *Cadbury Schweppes Inc. v. FBI Foods Ltd.,* [1999] 1 S.C.R. 142, Binnie J., for the court, stated at para. 36:

> Just as a contractual term can limit or negative a more general duty implied by the law of tort, so too can a contractual term that deals expressly or by necessary implication with confidentiality negate the general obligation otherwise imposed by equity: *337965 B.C. Ltd. v. Tackama Forest Products Ltd.* (1992), 91 D.L.R. (4th) 129 (B.C. C.A.), *per* Southin J.A., at p. 176, leave to appeal to this Court refused, [1993] 1 S.C.R. v (S.C.C.). The ability of parties to contract out of, or limit, general duties otherwise imposed by law has been labelled "private ordering", and the general principles applicable here would be analogous to the principles considered by this Court in the context of concurrent remedies in tort and contract in *BG Checo International Ltd. v. British Columbia Hydro & Power Authority*, [1993] 1 S.C.R. 12 (S.C.C.) at p. 27:
>
> > ...the tort duty, a general duty imputed by the law in all the relevant circumstances, must yield to the parties' superior right to arrange their rights and duties in a different way. In so far as the tort duty is not contradicted by the contract, it remains intact and may be sued upon.

Contractual Indications of Confidentiality

[205] As discussed above, article 3.10 of the CLA expressly held the parties to confidence regarding the information disclosed in the agreement. Article 3.10 states:

> 3.10 **CONFIDENTIALITY:** Each of the parties to this License Agreement shall maintain and hold confidential any and all information regarding the terms or condition of this License Agreement and any and all information regarding the Technology, the Proprietary Rights, or Improvements thereto of the other party during the Term of this License Agreement and thereafter, except to the extent that the information:
>
> i. is or becomes generally available to the public other than as a result of a disclosure by the recipient party;
>
> ii. becomes available to recipient party on a non-confidential basis and not in contravention of applicable law from a source other than the other party or one of its officers, directors, partners, employees, independent contractors, agents, or licensees ("Representatives") not bound by a confidential relationship with disclosing party or by a confidentiality or other similar agreement;

iii. can be proven was known by recipient party on a non-confidential basis and not in contravention of applicable law or confidentiality or other similar agreement prior to disclosure to recipient party by disclosing;

iv. notwithstanding the foregoing, with respect to the Licensed Technical Information or any information marked or indicated by the disclosing party as confidential, recipient party shall maintain such information as confidential.

[206] Under article 1.1 of the CLA, “Technology” means:

> ...any and all Proprietary Rights or confidential information, trade secrets, know-how, technical data, masks, code, programs, designs, processes, methods, operations, innovations or inventions, whether or not patented, and any patents, patent applications, copy rights, or other intellectual property of any kind that Licensor, now or hereafter, owns, controls, licenses, or has an interest in.

[207] Exhibit A to the CLA, titled “Licensed Technical Information”, states:

> The Licensed Technical Information contained herein is to be considered know how, trade secret or confidential information, of Licensor and shall not be reproduced or distributed in any manner except under the terms and conditions of this Commercial License granted, or by prior written approval of Licensor. The Licensed Technical Information contained herein is not to be considered exhaustive with respect to the Technology or Proprietary Rights and all information regarding the Technology or Proprietary rights, or any portion thereof, is also to be considered trade secret or confidential information, or the know how of Licensor.

[208] The confidential nature of XY’s technology and the information conveyed under the CLA is further supported by the Standard Terms and Conditions of DakoCytomation’s contract with JingJing for the purchase of an SX cytometer:

> The purchaser acknowledges that XY, Inc. of Fort Collins, Colorado, holds the worldwide exclusive rights to the use of the MoFlo cytometer to sort non-human sperm cells for the purpose of sex selection, and that a license is required from XY to use DakoCytomation MoFlo cytometer for sexing of non-human sperm cells.

The Confidential Information

[209] In this case there is confidential information of three kinds. First, the SX cytometers contain specialized parts that make them different from and superior to, for the purposes of bovine semen sorting, regular cytometers. Secondly, XY provides protocols and specific information about how to use its technology most

effectively. Thirdly, XY provided JingJing with its confidential patent information under the impression that JingJing required it to secure additional financing.

The Confidential Parts

[210] Respecting the confidential parts, Mike Evans testified that the following components of the SX Cytometer are confidential to SX:

a) Nozzle assembly, comprising the upper body, lower body and orienting tip;
b) Beam-shaping optic (BSO);
c) Interrogation tower, also called the illumination chamber;
d) Photomultiplier tube (PMT) detector circuitry/circuit board is modified;
e) Pinhole strip is modified;
f) Summit software has a feature enabled called Cytrack which allows rotation and zooming of data;
g) Forward objective;
h) Light filters;
i) The location of the strobe is changed;
j) The forward angle detector is modified;
k) The location of the side angle detector is changed.

[211] He testified that even licensees are not shown how to add to or modify most of these components. He gave testimony, which is sealed as confidential, about which aspects of the parts referred to or their configuration are confidential.

[212] Mr. Evans gave an example of how XY guards the confidentiality of its information. It was suggested to him in cross-examination that a technician not employed by XY or Dako could adjust the beam-shaping optic. Mr. Evans' evidence is that any adjustment would result in breaking the seal. The breaking of the seal voids the warranty.

The Protocols

[213] Respecting the confidential protocols, Mr. Gilligan testified that he provided a document to Dr. Remillard entitled "Confidential Information from XY, Inc. for the Purpose of Evaluating MoFlo SX Sperm Sorting Facility in Canada". The report

was provided in the presence of Dave Eastman, who signed a confidentiality agreement. Mr. Gilligan was able to find an unsigned copy of the confidentiality agreement he had prepared for Dr. Remillard, but was not able to find a signed copy. Nevertheless, he testified, "the understanding was that [it] was a confidential meeting."

[214] Dr. Remillard also testified that he considered XY's protocols confidential.

[215] As Mr. Gilligan explained in his testimony, although much of the information contained in the report had been published, the summary prepared by XY was "the entirety of our field work up to [2003] ... [p]ublished and unpublished, which gives anybody who holds it a very good understanding of what we do or don't know so far, published or unpublished." In keeping with the principle from *Saltman Engineering* referred to in dissent by Sopinka J. in *Lac Minerals*, it is clear the people at XY had used their brains in creating XY's protocols based on published and unpublished research and experiments and had produced something that could only be produced by having gone through such a process. As such, it is clear that the information contained in the protocols was confidential and the plaintiff's evidence that the protocols were conveyed in confidence has not been undermined.

The Patent Information

[216] Normally a company is reluctant to disclose its patent application information as it makes it easy for competitors to challenge the applications and potentially deny the company patent protection for its development. The confidential nature of XY's patent applications in China is evidenced by articles 1.1, 3.10 and 6.1.4 of the CLA, as well as the manner in which it was disclosed.

[217] In this case, JingJing convinced XY to disclose its Chinese patent applications in 2006 on the basis that it was necessary for them to secure financing there. Whether or not this was true, as discussed above, in 2007, Remillard and Zhu discussed the manner in which they intended to challenge XY's patent applications in China.

The Misuse

[218] Under the third element, there must have been a misuse of XY's confidential information. The evidence establishes that there was widespread misuse of XY's confidential information.

Development and Improvement

[219] Article 6.2.4 of the CLA requires that any research or development related to XY's technology with any third party with a view to improvement required XY's written consent. In breach of this provision and in violation of XY's confidence, JingJing engaged a former employee of XY, Todd Cox, to improve XY's technology and to convert ordinary MoFlo Cytometers to SX model cytometers capable of sorting bovine sperm.

[220] In October of 2006, Todd Cox faxed JingJing, setting out the research and design projects then planned. They included a "New laser path delivery system", a new "Laser delivery system – JDSU" and a "New Nozzle design". The fax sets out that the benefits included "elimination of middleman DakoCytomation's markup" and "**Sellable product to all sperm sorting facilities world wide!!!**" (emphasis in original).

[221] The intention behind the employment of Todd Cox, as revealed by the fax message, is clear: to develop and improve on XY's confidential information in breach of the CLA, in order to undermine XY's market position as the provider of the technology and know-how to efficiently sort bovine semen. This was a misuse of XY's confidential information, both of the technology and of the protocols.

[222] On June 7, 2007, Dr. Remillard sent an email to Selen Zhou and Jesse Zhu. It included the following:

> According to the information given by Jesse yesterday, I think we will need to sign a contract with Todd [Cox]. The projects are:
>
> 1 – install one or two machines at IND.
>
> 2 – install two machines in Shanghai;
>
> 3 – replace the laser on twelve machines for CABS and one year guaranty for the labor;
>
> 4 – technical support for IND machines and optimize them two or three times a year.

[223] All of these activities are inconsistent with the confidentiality requirements of XY and constitute a misuse of XY's technology and information.

Patent Challenges and Sorting Operations in China

[224] JingJing's challenge of XY's Chinese patent applications was clearly a misuse of the confidential information that XY had disclosed and was in direct conflict with JingJing's obligations under the CLA. Yet, the patent application challenges were only one part of the breach of XY's confidence.

[225] As the CLA sets out in article 2.1, JingJing was permitted to sort semen in the U.S. and Canada, and was allowed to sell the sorted products in China. JingJing was not permitted by the CLA to create sorting operations in China itself. Yet, starting in 2007, in an expected breach of article 2.1 and in violation of XY's confidence, JingJing began negotiations to sort semen in China for Shanghai Guangming, a large bull stud located in China.

[226] The negotiations with Shanghai Guangming were not disclosed to XY. That is the evidence of Dr. Remillard, which I accept.

[227] Mr. Zhu, on the other hand, swore an affidavit on July 11, 2008, in which he deposed: "I categorically state under oath that I have no plans, individually or through any company of mine, to produce sex-selected semen in China." That statement was untrue.

[228] The evidence is that JingJing attempted to establish sorting operations in China, using XY's technology, contrary to the confidentiality inherent in their relationship. This constitutes a misuse of XY's information and a breach of confidence.

[229] Overall, there has been a widespread misuse of XY's confidential technology and information amounting to a breach of confidence. An appropriate remedy under this heading is a mandatory and prohibitive injunction, to be discussed below.

(c) Inducing Breach of Contract

[230] The tort of inducing breach of contract arises where a defendant's wilful interference results in the breach of an existing contract between the plaintiff and a

third party and the plaintiff suffers damage as a result: *Economic Interests* at 77.

[231] In *Le Soleil Hospitality Inc. v. Louie,* 2010 BCSC 1183 ("*Le Soleil* (SC)") at para. 326, Dickson J. set out the four essential elements of the tort. In addition to the existence of a valid and subsisting contract between the plaintiff and a third party, the plaintiff must prove that:

> (a) the defendant had knowledge of the contract;
>
> (b) the defendant intended to bring about, induce or procure the breach of the contract;
>
> (c) the defendant persuaded or otherwise prevailed upon one party to a contract to break it, thereby causing loss to the plaintiff, the other contracting party or the defendant induces the contract breaker to enter into a contract with him or her that is inconsistent with the existing contract of the plaintiff; and
>
> (d) the plaintiff suffers damages as a consequence of the defendant's conduct.

See also: *Fabbi. v. Jones* (1972), [1973] S.C.R. 42 at 52; *Custer v. Hui,* 2006 BCSC 150 at paras. 13-14; *Terasen Gas Inc. v. Anglo Swiss Resources Inc.,* 2010 BCSC 1732 at para. 59.

[232] The tort of inducing breach of contract was not addressed in the plaintiff's closing submission. Although it was alleged in the statement of claim, nothing was said about it. The plaintiff did address the claim in reply to the defendants' submissions.

[233] I have concluded that Selen Zhou, Jesse Zhu and Tang Jin are not liable for this tort. They did not induce or procure the breach of contract. They were JingJing's employees or officers. JingJing, through the actions of Selen Zhou, Jesse Zhu and Tang Jin, breached the contract. Their actions on behalf of JingJing are not the same as inducing breach.

[234] The nature of the tort is interfering with the third party's contract. As Peter Burns and Joost Blom put it in *Economic Interests*, at 786-77:

> The tort of inducing breach of contract is relatively well established. It arises in respect of a wilful interference resulting in the breach of an existing contract. The origins of the tort stem from the action of enticing away the servant of another during the Black Death of 1348. In *Lumley v. Guy*, the modern tort was concisely delineated on demurrer where by an action for enticement was not confined to contracts between master and servant in the strict sense, but applied as well to any instance where professional services were rendered. There, the plaintiff manager of a theatre who had contracted for the exclusive services of Ms. Wagner, an opera singer, for a certain period successfully sued the defendants who, being aware of this contract, persuaded Ms. Wagner to leave the plaintiff's employment. It is said to impose accessory liability, whereby the person procuring the breach of contract is held liable as accessory to the liability of the contracting party who must have committed an actionable wrong – the breach of contract.

[235] Here, the personal defendants did not induce JingJing to breach its contract with XY. Rather, they were carrying out JingJing's breach of contract.

[236] For these reasons, I conclude there is no inducing of breach of contract here.

(d) Deceit

[237] The tort of deceit, also known as civil fraud, is concerned with the intentional inducement of another person to rely upon a representation that the representor knows to be untrue. The elements that make up this tort are:

(1) a false representation of fact by the defendant;

(2) made with knowledge of its falsity or recklessly, ie. not caring whether it is true or not;

(3) made with the intention that the plaintiff would act on it;

(4) with the intention that the plaintiff would act on it; and

(5) the plaintiff suffered damages.

See: *Le Soleil* (SC) at paras. 312-314; *Han v. Cho*, 2009 BCSC 458 at para. 79.

[238] Mr. Justice Bauman, as he then was, writing for the court in *Catalyst Pulp and Paper Sales Inc. v. Universal Paper Export Company Ltd.,* 2009 BCCA 307 at paras. 57-58, quoted with approval from *The Law of Torts in Canada,* 2nd ed. (Toronto: Carswell, 2002) at 749-751, where Professor Fridman discussed the elements of the tort of deceit:

On the intent to deceive element, the learned author states:

> The false statement must be made with the intent that the plaintiff, to whom it is made, should act upon it. It must be intended to deceive the person to whom it is made, in other words to cause that person to believe in the truth of the statement and act accordingly. Clearly if the defendant does not know his statement is false then he cannot have the requisite intent to deceive.

On the reliance element:

> Before a defendant can be liable for deceit it must be established, as a matter of fact, that the plaintiff relied on the defendant's misrepresentation. Such reliance was proved to have occurred in *Dixon v. Deacon Morgan McEwan Easson* where the plaintiff purchased the shares as a result of reading the press release containing the inaccurate financial statements about the company.
>
> Although in general it is for the plaintiff to prove the requisite reliance, it would seem that once the plaintiff establishes that the defendant made a misrepresentation calculated to induce the plaintiff to act to his detriment and loss consistent with the plaintiff's having acted on the misrepresentation, the onus then shifts to the defendant to prove that the plaintiff did not in fact rely on the misrepresentation in issue.
>
> [footnote references omitted]

[239] Bauman J.A. continued at paras. 59-60:

> The thrust of the reliance ingredient is the resulting action by the plaintiff to his or her detriment: see also J.G. Fleming, *The Law of Torts*, 9th ed. (Sydney: LBC Information Services, 1998) at 694-695. This point is also made in G.S. Bower, Turner & K.R. Handley, *Actionable Misrepresentation*, 4th ed. (Butterworths: London, 2000) at 87:
>
> > 140 Entry into a contract with the representor or a third person is the most common alteration of position. But there are other transactions involving economic loss, present or contingent, which the representee may be induced to undertake which constitute an alteration in position. They include unilateral acts such as payments, gifts, licences and consents, condonations of matrimonial offences, forbearances, and renunciations, and acts which render the representee civilly responsible to some third person, or in breach of the criminal law, which would not have done so if the statement had been true.
> >
> > [footnote references omitted]
>
> In *Kelemen v. El-Homeira* (1999), 1999 ABCA 315, 250 A.R. 67, the Alberta Court of Appeal discussed the tort of deceit and the "contract action of fraudulent misrepresentation inducing a contract" (at para. 5). On the issue of reliance, the court stated at para. 20:
>
> > A critical question is: What was the action taken? In a fraudulent misrepresentation action it must be entering into a contract. In a tort action, that may be, but need not be, the action. Here the intention of Kelemen was to divert El-Homeira from consulting Rudge. He

> succeeded because El-Homeira's action was to consult Runica, who was not an independent advisor, instead of the independent adviser he wanted and required, Rudge. While it is true that he also entered into the contract, that fact is irrelevant in the tort action, although it would be critical in the contract action.

The Knowingly False Representations

[240] Here, the defendants admit that their representations to XY, at least until 2008, were "inaccurate". It is also not disputed that they knew the reports were inaccurate.

[241] These reports include the false production reports from the Québec lab which indicate the production of Wagyu IVF embryos. They include the reports for October, November and December 2006 which indicate no production.

The Intention for XY to Rely on the Representations

[242] There can be no serious issue about the third element of the tort of deceit. The purpose of Tang Jin, Jesse Zhu and Selen Zhou in falsely representing production records was that the plaintiff would expect, and accept, less royalty payments than what the plaintiff was entitled to.

[243] In his article, "The Fraud Elements of Deceit and Fraudulent Misrepresentation" (1996), 18 Advocates' Q. 23 at 28-30 (referred to in *Economic Interests* at p. 65), Paul M. Perell discusses the intention element of the tort of deceit. At p. 28 he notes "that the law, in its formulation of what is fraudulent, is essentially describing in a formal legal way what in everyday life would be described as lying with the intent to deceive." Referring to the American philosopher, Mortimer J. Adler's description, Perell states that lying means essentially "putting into words the very opposite of one's own state of mind" (p. 28). Thus, the practical problem in this case is establishing what was actually in the defendants' minds.

[244] Perell notes that the easy cases of proving a defendant was lying are where a defendant's assertion of what he represented as true is contradicted by direct documentary or *viva voce* evidence. For example, a case where a defendant forges documents to show positive financial indicators for a business he is selling, when the information he based the documents on does not exist or the records clearly show that his representations were false. Or the situation where a seller of

a home represents that the home has a sound roof, and the neighbour testifies that the seller had spoken to him earlier about the fact that the roof was leaky and in disrepair.

[245] As Perell states at p. 30,

> More complicated are the cases where the defendant's state of knowledge is inferred or proven circumstantially because the defendant's assertion of honest belief or denial of knowledge of the falseness of his or her statement is very unlikely.

[246] On this issue, Burns and Blom (*Economic Interests*) state, at p. 65:

> As Lord Selborne put it in an early case, the question of fraud "is to be judged of by the nature and character of the representations made, considered with reference to the object for which they were made, the knowledge or means of knowledge of the person making them, and the intention which the law justly imputes to every man to produce those consequences which are the natural result of his acts'" (p. 65, footnote referring to *Smith v. Chadwick* (1884), 9 App. Cas. 187 at 190 (H.L.)).

[247] In the case at bar, it is clear that the individual defendants knew the information they provided to XY was false and the circumstances warrant an inference that they intended for XY to be deceived by it.

[248] The basis of this conclusion rests on the factual findings regarding the meeting the four managers allegedly held the documentary evidence in responses to emails and witnesses' testimony in court. Little credence can be given to Zhu, Zhou and Jin's evidence. Dr. Remillard had no reason to be untruthful. It is fair to conclude that such a meeting was held and that the managers there devised the plan to deceive XY.

[249] Following on Perell's discussion of intention in civil fraud, the following circumstances indicate liability for JingJing, Jesse Zhu, Selen Zhou and Tang Jin:

- The email sent by Remillard to Zhu on Feb 18, 2004, stating that they have to be careful in selling sexed semen in China for which they had no licensing permission and to be wary of XY's inferences from the fact that they have so many SX cytometers. Remillard's statement, "I bet they have good lawyers too!" underlines the deception ;

- The meeting held by Tang Jin, Selen Zhou, Richard Remillard, and Jesse Zhu is evidence of a intention to produce deceiving numbers that only appear authentic; they agreed that the "[t]otal number of embryos would equal the number of doses we use per day." As Remillard testifies, the purpose of this endeavour was "to pay less royalty fee". Based on this meeting, it can be inferred that the defendants intended to lie and deceive XY by making representations that were contrary to the facts (or made in the absence of any facts).

[250] On June 21, 2006, Selen Zhou attempted to "renegotiate" the royalty terms by unilaterally altering the CLA. Dr. Jacobson rebukes her in an email for this and makes it clear that this is not the way he does business. He further requests that Zhou respond to Thom Gilligan's email "which seeks the correct details of your past sales – for reporting, royalty and compliance purposes."

[251] From this interaction it is clear that Zhou knew what royalties JingJing was responsible for to XY – why else would she attempt to actually alter the CLA? Altering the agreement is contrary to the defendants' assertion of a mistake of fact or honest belief and is circumstantial evidence that Selen Zhou actively perpetuated the deceit on XY by forwarding information she knew was false and was related directly to the payment provisions of the CLA.

[252] On June 20, 2007, Thom Gilligan sent an email to Remillard stating that he was skeptical of JingJing's reported numbers and challenging the reduced royalty rate on "B" type embryos. XY here is again informing JingJing that it is not complying with the expectations of the CLA. Remillard then immediately informs the other three managers that "the number given to XY must match...". The email on its face shows Remillard reaching out to the group to try and find a solution to a problem that affects all of their deceitful intentions.

[253] Further, the fact that Tang Jin sent an email to Remillard, Zhou and Zhu two days later (June 22, 2007), laying out just how the numbers could be massaged to fit XY's expectations indicates her participation in the actual deception. The email belies any suggestion she was simply following orders and appears as a voluntary offering of information to perpetuate the deception.

[254] The evidence establishes that Zhou knew the royalty terms of the CLA and was dissatisfied with them. She then knowingly reported false numbers; Tang volunteered information to assist in perpetuating the deception.

[255] Finally, it is material that no argument was offered by Tang Jin or Selen Zhou that they were just following orders. One would expect that if senior management compelled them to participate in the deception of XY, they would raise the fact they had no choice and were simply doing what they were told when XY began its claims for liability.

[256] Even though Selen Zhou and Tang Jin were simply employees of JingJing, Burns and Blom note, in Economic Interests, that "[a] fraudulent employee or agent is, of course liable jointly with the employer or principal, irrespective of whether the fraud was done at the behest and for the benefit of the latter" (footnote referring to *TWT Enterprises Ltd. v. Westgreen Developments (North) Ltd.*, [1992] A.J. No. 569 (C.A.); and *Garda v. Osborne* (1996), 72 B.C.A.C. 101 (B.C.C.A.)). See also: *Clearwater Drilling (1981) Ltd. v. Western Construction Ltd.*, 2004 NLSCTD 45 at paras. 35-37.

[257] Furthermore, Selen Zhou, Tang Jin and Jesse Zhu are liable as joint tortfeasors by operation of the principle discussed in *Osborne v. Pavlick*, 2000 BCCA 120. In *Osborne* at para. 16, Southin J.A. adopted the description of joint tortfeasors from *The Koursk*, [1924] P. 140 (U.K.C.A.), where Scrutton L.J. stated at 155:

> The substantial question in the present case is: What is meant by "joint tortfeasors"? and one way of answering it is: "Is the cause of action against them the same?" Certain classes of persons seem clearly to be "joint tortfeasors": The agent who commits a tort within the scope of his employment for his principal, and the principal; the servant who commits a tort in the course of his employment, and his master; two persons who agree on common action, in the course of, and to further which, one of them commits a tort. These seem clearly joint tortfeasors; there is one tort committed by one of them on behalf of, or in concert with another.

[258] In this case, regardless of which defendant committed which aspect of the tort, the evidence supports a finding that Helen Zhou, Jesse Zhu, Tang Jin and Dr. Remillard each played a part and acted in concert to deceive XY about JingJing's use of its technology and information.

[259] The plaintiff argues in the alternative that if Jesse Zhu is not a joint tortfeasor, he is personally liable as the directing mind of a fraud through his companies. XY concedes that a director is not liable for a company's breach of contract where the breach is in the company's best interest. But where, as here, a director causes a company to breach a contract through fraud, it cannot be said that he is acting in the best interests of the company.

The Plaintiff's Reliance

[260] Finally, the plaintiff did act on it. Until the true facts were discovered, the plaintiff had no way of knowing it was receiving less than what it was owed, and that it was therefore entitled to recover damages.

Damages

[261] There is no serious issue about the fifth element of the tort of deceit: the plaintiff undoubtedly suffered damages.

Conclusion

[262] The evidence establishes that Jesse Zhu, Selen Zhou, Tang Jin and JingJing are joint tortfeasors in deceit. It is therefore unnecessary to consider Jesse Zhu's personal liability as the directing mind of a fraud.

(e) Conspiracy

[263] This is an alternative claim to the plaintiff's claims in deceit.

[264] The tort of conspiracy is premised on the rationale that "combination by several persons may make conduct oppressive that would be less so if done by an individual": *Economic Interests* at 147.

[265] The elements of the tort of conspiracy were set out by McEachern C.J.B.C., as he then was, in *Can-Dive Services Ltd. v. Pacific Coast Energy Corp.* (1993), 96 B.C.L.R. (2d) 156 (C.A.) at para. 5:

1. an agreement between two or more persons;
2. concerted action taken pursuant to the agreement;
3. (i) if the action is lawful, there must be evidence that the conspirators intended to cause damage to the plaintiff;

(ii) if the action is unlawful, there must at least be evidence that the conspirators knew or ought to have known that their action would injure the plaintiff (i.e., constructive intent);

4. actual damage suffered by the plaintiff.

[266] See also: Le Soleil Hospitality Inc. v. Louie, 2011 BCCA 305 ("Le Soleil (CA)") at para. 111; Canada Cement LaFarge Ltd. v. British Columbia Lightweight Aggregate Ltd., [1983] 1 S.C.R. 452 at 471-72.

[267] There are two branches to the civil conspiracy test. Here, the plaintiff's primary position on conspiracy is that the defendants' unlawful actions caused it harm, which falls to the second branch. Having found the defendants liable for deceit, I will focus on the parties' arguments regarding conspiracy using unlawful means.

Existence of an Agreement

[268] Direct evidence is not required to demonstrate the existence of an agreement between co-conspirators, nor does the agreement have to be contractual. Rather, an agreement may be inferred from the facts, so long as they "cannot fairly admit of any other inference being drawn from them": *Golden Capital Securities Ltd. v. Holmes*, 2004 BCCA 565 at para. 46, citing *Sweeney v. Coote*, [1907] A.C. 221 at 222 (H.L.).

[269] On the evidence before me, I am satisfied that there is an agreement. Dr. Remillard testified that in a meeting involving Tang Jin, Selen Zhou, Jesse Zhu and himself, they agreed what to report to XY with the purpose being to pay them the royalties to which XY was entitled:

Q During your discussion with Jesse Zhu and Tang Jin and Selen Zhou about the numbers you were going to produce – to disclose to XY – to report to XY, why did you decide to report a different number of embryos to XY than what you were actually making?

A We had to pay less royalty fee.

[270] Even in the absence of such a meeting, there was, on all the evidence, clearly an agreement among the four principals.

False Reports, Pursuant to the Agreement

[271] Similarly, I am satisfied there was concerted action pursuant to the agreement. The defendants' actions included falsely reporting to XY and concealing material documents.

Unlawful Acts By Each Conspirator

[272] The defendants rely on the Court of Appeal's reasons in *Bank of Montreal v. Tortora,* 2010 BCCA 139, for the proposition that each of the co-conspirators must have committed an unlawful act in order for this element to be made out. The relevant passages are at paras. 43-47 of the judgment, where Chaisson J., for the court, wrote:

> The Bank's approach is more consonant with the law of criminal conspiracy where the crime is in the agreement. The distinction between criminal and tortious conspiracy was made clear by Lord Diplock in *Lonrho Ltd. v. Shell Petroleum Co. Ltd.*, [1982] A.C. 173 at p. 188, as quoted by Estey J. in *LaFarge:*
>
> > The gist of the cause of action is damage to the plaintiff; so long as it remains unexecuted the agreement, which alone constitutes the crime of conspiracy, causes no damage; it is only acts done in execution of the agreement that are capable of doing that...the tort, unlike the crime, consists not of agreement but of concerted action taken pursuant to agreement.
>
> Where the gravamen of the tort is unlawful conduct, Mr. Punja's agreement to assist Ms. Tortora and Ms. Poonja by lawful conduct – receiving money from Ms. Tortora – does not constitute actionable civil conspiracy.
>
> The Bank relies on *Kuwait Oil Tanker Co. SAK v. Al Bader*, [2000] 2 All ER (Comm) 271 (C.A.), for the proposition that it is not necessary to allege an unlawful act against each conspirator. It asserts in its factum that, "[t]he raison d'être of the law of conspiracy under the second branch of the test is to render those who assist others in unlawful conduct directed against the plaintiff liable along with those who committed the unlawful act".
>
> Ms. Poonja and Mr. Punja question reliance on English jurisprudence in light of the Supreme Court of Canada's departure in *LaFarge* from the English cases' requirement of intention in unlawful act conspiracy. They also note that the court in *Kuwait* referred to the above-quoted passage of Lord Diplock in *Lonrho* and assert that the facts in *Kuwait* do not support the proposition advanced by the Bank: there were a number of schemes organized by employees to take money from their employer and each person participated.
>
> In my view, there is merit in the observations of Ms. Poonja and Mr. Punja. In any event, I am not persuaded that the decision in *Kuwait* obviates what I take from the analysis in *LaFarge*: actionable unlawful act conspiracy requires unlawful conduct by each conspirator.

[273] Here, Chaisson J.'s final statement cannot be applied in the manner suggested by the defendants. That case pertained to the striking of pleadings where the plaintiff did not plead specific unlawful acts carried out by one of the defendants, who allegedly participated in the conspiracy.

[274] It was put this way in *Golden Capital Securities* at para. 74:

> A person who conspires with others to commit unlawful acts may be liable for the consequences even though some of the acts are instigated by a single conspirator. But a person's liability for the acts of other conspirators requires proof that the person knew or should have known that such acts were a probable consequence of carrying out the common objective: *R. v. Henderson*, [1948] S.C.R. 226 at 236, [1949] 2 D.L.R. 121, as cited in *Claiborne* at 79.

[275] I have found the defendants Jesse Zhu, Tang Jin and Selen Zhou liable for deceit. Additionally, in committing those unlawful acts, I am satisfied that these defendants knew or ought to have known that injury to the plaintiff was likely. These defendants were falsely reporting production and thereby underpaying the plaintiff.

[276] Finally, I find that the plaintiff suffered a financial loss as a result of the unlawful conduct by the defendants. It was deprived of the royalties to which it was entitled.

[277] For these reasons I concluded that the plaintiff has proved conspiracy on the part of Jesse Zhu, Selen Zhou and Tang Jin.

Quantum of Damages

Adverse Inference

[278] The plaintiff bears the burden of proving a compensable loss. Where a defendant's wrongful conduct prevents the plaintiff from establishing the loss, adverse facts will be presumed: *Le Soleil* (S.C.) at paras. 286-287, aff'd *Le Soleil* (CA).

[279] Where the defendants fail to keep a record that would establish the actual measure of damages, the court may apply the principle *omnia praesumuntur contra spoliatorem* (all things are presumed against a wrongdoer). The principle has been applied by this Court: *Encorp Pacific Canada v. Rocky Mountain Return*

Center Ltd., 2008 BCSC 779. The origin of this legal principle has been traced to *Armory v. Delamirie* (1722), 1 Strange 504, 93 E.R. 664 (K.B.). In that case, the plaintiff gave the defendant a jewel for the purpose of having it assessed. The defendant failed to return it, and the court presumed the jewel to be of the best quality.

[280] The presumption is even stronger where, as here, there is a contractual obligation to keep records. Section 3.3 of the CLA requires the licensee to

> ... maintain accurate books of account and records ... sufficient to support all calculations of gross receipts, minimum royalty amounts for licensed product(s), all itemization of accounts and written reports, amounts of royalties remitted, and summary statements.

Embryos Produced by the Defendants

[281] The difficulty in this case is that the documents that could have been used to calculate the total number of embryos used in China are within the defendants' control, but they have not been produced. The plaintiff is therefore seeking a remedy on the basis of an assessment of the highest number and value of the sexed semen and embryos likely used by the defendants in China. It is the plaintiff's submission that because the defendants have made it impossible to determine how many embryos were used in China, I should draw an inference that: (a) the defendants used all the embryos they had the capacity to produce; (b) the defendants used all the embryos that they shipped; or (c) the defendants used all the embryos they produced, based on an extrapolation from their production records.

[282] There are various pieces of evidence regarding the capacity of the defendants to produce embryos. For example, Dr. Remillard stated in an email in 2006: "We have the capacity to produce over 100,000 IVF embryos per year." Also, an IND brochure stated that the three production bases (referring to Montreal, Vancouver and Pennsylvania) have the capability to produce 300,000 *in vitro* embryos annually. As well, a "business plan" published by IND (Qingdao) stated that IND Embryontech had produced 350,000 embryos up to 2006, of which 150,000 embryos had been used on large-scale embryo transfer.

[283] The plaintiffs argue that these figures indicate that the defendants had the capacity to produce between 500,000 and 1,500,000 embryos between 2004 and

2008.

[284] Second, if one uses the evidence of shipments of embryos, it appears that 430,000 embryos, at the very least, were shipped.

[285] The third method of calculating is to determine what the production records indicate. Using this method is highly speculative. Many of the production records are simply false. A fair assessment, taking all of this evidence into account, is 500,000 embryos for the period before January 2007, and 150,000 in the period thereafter.

Fair Market Value of IVF Embryos

[286] There is a broad range of evidence upon which to determine the fair market value of the embryos.

[287] Dr. Gordon MacDonald gave expert evidence about the fair market value of sexed embryos, both IVF and *in vivo*. His opinion was that sexed products were worth double the value of unsexed products. He testified that unsexed IVF embryos sold for between $60 and $75 USD.

[288] Dr. MacDonald fulfilled his role as an expert; he was not an advocate. I found Dr. MacDonald to be forthright. He readily conceded that his numbers were not exact, but were meant to give “some kind of idea”.

[289] Dr. MacDonald’s evidence makes sense. As Jesse Zhu testified, a male Holstein calf is less than valueless because of the cost of nine months of pregnancy.

[290] Moreover, Dr. MacDonald’s evidence is consistent with other evidence regarding the market value. Jesse Zhu testified about embryos produced in Pennsylvania from 200 doses of sexed semen provided by XY. The embryos were used in an investment in a joint venture between the IND Group and Hebei Guofo Investment Company. He said that “the value of 1,000 renminbi or $125 was confirmed by both parties as the investment values for those embryos”. I note that in re-examination, Jesse Zhu said that the figure of $125 was not a selling price on the market, but an investment figure.

[291] Mr. Gilligan gave evidence about an email he wrote to Dr. Remillard in 2006. The email referred to a recent news release from Hebei Tangshen City government about a dairy centre using IND sexed embryos. It stated the price of sexed embryos was approximately RMB1,000.

[292] The value of the embryos must be considered higher after January 2007. Starting from that time, IND began to use proven sires. The value of the sexed semen is higher. Even for internal intra-company accounting, invoices were at least 30% and sometimes 50% higher for semen from proven sires.

[293] The plaintiffs' claim is that the average value is $135 before January 2007, and $150 for embryos shipped after that date. I do not go that far. My conclusion is the value should be assessed at $125 before January 2007, and $150 thereafter.

Semen production

[294] There is no dispute that royalties of $6.00 per AI straw on 195,148 AI straws is payable.

In vivo embryos

[295] Dr. Remillard gave evidence about *in vivo* embryos, explaining a spreadsheet that was produced. I am satisfied there are 1,147 embryos upon which 20% royalty is payable. Based on an average fair market value of $350, the amount owing is $80,290.

Conclusion regarding loss

[296] The losses proved by XY can be summarized as follows:

1.	IVF embryos before January 2007: 500,000 embryos x 10% of $125 f.m.v.	6,250,000
2.	IVF embryos after January 2007: 100,000 embryos x 10% of $150 f.m.v. (This does not include post December 2008 – this will be referred to the Registrar)	1,500,000
3.	*In vivo* embryos: 1,147 embryos x 20% of $350 f.m.v.	80,290
4.	Semen production 195,148 AI straws x $6 royalty	1,170,888
5.	LESS: Royalties already paid	(20,616)
6.	LESS: Summary judgment	(472,671)
	TOTAL:	$8,507,891

Liability of Defendants other than JingJing

[297] The plaintiff argues that Tang Jin, Selen Zhou and Jesse Zhu are joint tortfeasors and are, together with the corporate IND defendants, jointly and severally liable.

[298] Based on the principled as discussed in *Osborne* at para. 16, the evidence does not establish that the tort of deceit committed by the individual defendants was in concert with the corporate members of the IND Group (beyond JingJing), or that that it was committed on their behalf.

IND Group as a "common interest entity"

[299] The plaintiff argues as well that the IND Group of companies should be treated as one entity. Jesse Zhu gave this answer in his examination for discovery: "Because before we got listed, all the shareholding was in China and in Canada was controlled by me. It's an absolute common interest entity."

[300] XY relies on the last sentence of that quotation. It points to the fact that the employment contracts signed by Selen Zhou, Tang Jin and Dr. Remillard were all with the "IND Group", not a specific company; Ms. Zhou testified that she did accounting work for many IND companies, without tracking or allocating her time among them.

[301] The evidence is that three individual defendants, Tang Jin, Selen Zhou and Jess Zhu, along with Dr. Remillard, were managing JingJing's business.

Dr. Remillard referred to the three of them, and himself, as management. Selen Zhou, Tang Jin and he were in his words “directors of departments”. He was in charge of overall production “but mainly exportations [sic]”. Selen Zhou was director of accounting. Dr. Remillard referred to Jesse Zhu as “the Chairman”.

[302] There is other evidence as well. An internal memorandum in July 2007 that was circulated within the IND Group stated that Tang Jin was “in charge of the North American bovine industry Lifetech Company” consisting of JingJing, IND (Pennsylvania), IND (California) and IND Embryontech. It stated that Selen Zhou was in charge of “all legal and important matters in North America”.

[303] The evidence of Tang Jin was to a similar effect. Between 2002 and 2008, she was working for the IND Group as a whole. This exchange took place during her examination on November 1, 2010:

> Q. Is it fair to say that between 2002 and 2008, as far as you were concerned, you were working for the IND Group as a whole?
>
> A. Yes.
>
> Q. And the fact there was one company in Québec and another company in Pennsylvania, and several companies in Vancouver, that didn’t matter to you, did it?
>
> A. That’s right.
>
> Q. And you – in fact you didn’t know how to distinguish between the various companies within the IND Group?
>
> A. That’s right.
>
> Q. And you didn’t know which business belonged to which company?
>
> A. That’s right.

[304] XY also points to the circumstances of the shares of IND Embryontech. Its shares had been held by IND (Cayman). However, between January 1, 2004, and December 31, 2005, there was a transfer of these shares to Jesse Zhu. Because Mr. Zhu is a Canadian citizen, this permitted IND Embryontech to qualify for research grants from the Government of Canada. Afterward, Mr. Zhu transferred the shares back. No money changed hands in this transaction.

[305] XY also relies on the sale of JingJing’s shares as a misguided attempt by the defendant to avoid liability.

[306] XY argues that in the circumstances, all members of the IND group are jointly and severally liable as tortfeasors with the individual defendants and with JingJing for its breach of contract, based on the close relationship between individual members of the IND Group.

[307] The defendants (other than JingJing) concede that JingJing may be in breach of its contract with XY. But they argue that JingJing is the only entity in a contractual relationship with XY. Two of the corporate entities, International Newtech and IND (Cayman) are holding companies. The defendants argue there is no evidence they were involved in any form of deceit or deception vis-á-vis the plaintiff. They had no contractual or other relationship with the plaintiff. The only connecting factor is Jesse Zhu's ownership interest.

[308] Moreover, the defendants argue, the operating companies are simply that. The defendants argue that in the absence of evidence establishing a conspiracy among those operating companies, there is no basis for judgment against any of them. There was no evidence led of any conspiracy involving IND (Qingdao), the Chinese company. The evidence concerning IND Embryontech and IND (California) is that they were corporate vehicles for operations producing embryos in Drummondville and Fresno.

Piercing the Corporate Veil – the Group Enterprise Doctrine

[309] The law is clear that courts will not pierce the corporate veil in the absence of exceptional circumstances. A well known exception is where the corporation has been used as a cover for deliberate wrongdoing. If the company has been used as a cloak for fraud or manifestly improper conduct, that is a basis for piercing the corporate veil. In *B.G. Preeco 1 (Pacific Coast) Ltd. v. Bon Street Holdings Ltd.* (1989), 37 B.C.L.R. (2d) 258 (B.C.C.A.), Mr. Justice Seaton, speaking for a unanimous court, said, at 268:

> The cases in which the corporate veil is pierced on the ground of "fraud or improper conduct" deal with instances where a corporation is used to effect a purpose or commit an act which the shareholder could not effect or commit.
>
> In *Gilford Motor Co. v. Horne*, [1933] Ch. 935, 1933 All E.R. Rep. 109 (C.A.), the plaintiff sought an injunction to prevent the defendant, through a newly-incorporated company, from breaching a restrictive covenant. The injunction was granted against both the individual and the company on the

> basis that the company was merely a device by which the individual defendant breached his restrictive covenant.
>
> Similarly, in *Jones v. Lipman*, [1962] 1 All E.R. 442, (1962) 1 W.L.R. 832 (Ch. D.), the plaintiff was granted specific performance of a contract entered into with the first defendant. In an attempt to avoid the contract, the first defendant sold the property in question to the second defendant, a company in which the first defendant and a clerk of his solicitor were sole shareholders. ...
>
> The group enterprise theory has also been extended to other types of cases. This version of piercing the corporate veil was used in *Manley Inc. v. Fallis* (1977), 2 B.L.R. 277, 38 C.P.R. (2d) 74 (Ont. C.A.) to find an employee of one company liable for breach of fiduciary duty by setting up a business in competition with his employer's parent company.

[310] Kevin P. McGuiness in *Canadian Business Corporations Law* (Markham: LexisNexis, 2007) discusses the latter situation, where a corporate "group enterprise" makes it appropriate to pierce the corporate veil. At p. 67, he states:

> Where a group of corporations with interlocking ownership carry on what is in effect a single combined and integrated economic enterprise, the question arises as to whether the law should disregard the separate corporate vehicles conducting each aspect of the combined enterprise, and treat the group as a single entity.

[311] McGuiness notes that disregarding the separate legal personality of each individual company and viewing the group as a whole runs counter to both legislative enactments and the resulting judicial treatment regarding corporations. Yet, such an approach has occasionally been adopted by the courts, notably in cases related to employment, where the court has accepted that an individual can have more than one employer (see: *Downtown Eatery (1993) Ltd. v. Ontario* (2001), 54 O.R. (3d) 161 (C.A.)), or in cases where, despite the lack of any formal agreement, two companies are operating as a partnership (see: *Western Canadian Place Ltd. v. Con-Force Products Ltd.* (1997), 208 A.R. 179 (Q.B.)).

[312] In *Alberta Gas Ethylene Co. v. Canada* (1988), 24 F.T.R. 309 at 313-14, Reed J. discussed the general approach to the corporate group concept indicated by Atkinson J. in *Smith, Stone & Knight Ltd. v. Birmingham Corp.*, [1939] 4 All E.R. 116 (K.B.):

> The Smith case, cited by counsel for the plaintiff, sets out six criteria which have been used in cases when determining whether to disregard the separate legal entity of a subsidiary corporation and depart from the principle set out in Salomon v. Salomon & Co., Salomon & Co. v. Salomon, [1897] A.C. 22 (H.L). Those six criteria are: whether the profits of the

> subsidiary are treated as the profits of the parent; whether the persons conducting the business of the subsidiary were appointed by the parent company; whether the parent was the head and brains of the subsidiary; whether the parent governed the adventure (of the subsidiary); whether the subsidiary made its profits by its own skill and direction, or by that of its parent; whether the parent was in effectual and constant control of the subsidiary. (There is obviously some redundancy in this [list].) While not a tax case, the Smith case purported to draw the six criteria from revenue cases.
>
> I have difficulty with counsel's argument. As I read the jurisprudence, it does not establish that it is sufficient to consider the six criteria and when they are all met (as they are in the present case) to ignore the separate legal existence of the subsidiary company. One has to ask for what purpose and in what context is the subsidiary being ignored. What is more, I do not interpret the jurisprudence as ignoring the existence of subsidiary corporations per se. Rather, it seems to me that the jurisprudence proceeds on the basis that in certain circumstances, consequences will be drawn despite the legal existence of separate subsidiary corporations. Thus, in cases where business expenses or business losses are being determined, it has been held that despite the existence of a separate subsidiary corporation, losses incurred by the subsidiary may, in certain circumstances, properly be characterized as losses of the parent.

[313] A similarly restrained perspective was endorsed by Cameron J.A. in *Bow Valley Husky (Bermuda) Ltd. v. Saint John Shipbuilding Ltd.* (1994), 126 D.L.R. (4th) 1 (N.L.C.A.), var'd [1997] 3 S.C.R. 1210. In the U.K. the group enterprise approach was significantly curtailed after the decision in *Adams v. Cape Industries plc*, [1990] Ch. 433 at 554 (U.K.C.A.).

Conclusion

[314] Considering the discussion in *Alberta Gas Ethylene*, I find it impossible on the evidence and the arguments submitted to answer the six criteria with any certainty. While there may be connections between the corporate members of the IND Group and the individual defendants, and while certain of the individual defendants may view the IND Group as a unified entity, there is no legal basis for the Court to disregard the juristic personhood of each individual member of the IND Group. The starting presumption is that

> each company in a group of companies (a relatively modern concept) is a separate legal entity possessed of separate legal rights and liabilities so that the rights of one company in a group cannot be exercised by another company in that group even though the ultimate benefit of the exercise of those rights would accrue beneficially to the same person or corporate body. (See: *Centre Town Developments Ltd. v. Fred E. Gray & Associates Inc.* (1983), 9 C.L.R. 144 (Ont H Ct J) at para 4; *Re: Residential Indian*

> *Schools*, 2002 ABQB 667 at 170; both citing *The Albazero*, [1975] 3 All E.R. 21 (C.A.) at 521.)

[315] The evidence establishes that JingJing, Selen Zhou, Tang Jin and Jesse Zhu have all engaged in deceit. They fraudulently participated in the preparation and delivery of false royalty reports to XY to avoid paying royalties while obtaining the benefit of the technology.

[316] The plaintiff's complaint is that JingJing sold or transferred its products to IND companies which did not pay it. When JingJing became bankrupt, XY had no recourse against it.

[317] I agree with the defendants, however, that the IND group of companies are not liable. The fact that Mr. Zhu treated them as a "common interest entity" does not entitle the court to disregard their separate legal personality as corporations. The circumstances of this case and of the corporate members of the IND Group do not rise to a level where the consequences of the individual defendants' torts or those of JingJing's breach of contract should flow throughout the IND Group to its individual members.

[318] The plaintiff's contract was with JingJing. None of the corporate defendants is party to the CLA. In the absence of a piercing of the corporate veil, or a finding of tortious activity on the part of one of the corporate defendants, there is no basis for liability.

Unjust Enrichment

[319] This was not argued by the plaintiff in its closing submissions, but was set out in its statement of claim and brought up briefly in its reply submissions.

[320] Given my determinations on the claims of deceit, breach of confidence and breach of contract, an analysis of the plaintiff's alternative claim for a constructive trust under the doctrine of unjust enrichment is not necessary.

[321] Insofar as the claim may apply to the other corporate IND defendants which have thus far not been found liable, there is a paucity of evidence showing the manner in which other members of the IND Group have been enriched. The plaintiff's loss and the lack of juristic reason for any resulting enrichment have

been established but, without more, the claim in unjust enrichment against the other corporate defendants in the IND Group must fail.

Injunctions

[322] The plaintiff is seeking a mandatory injunction with respect to JingJing's research and improvements and a prohibitory injunction relating to XY's confidential information.

[323] The approach to a prohibitory injunction was described in *J.M. Steeves Dairy Ltd. v. Twin City Co-operative Milk Producers Assn.*(1925), [1926] 1 W.W.R. 25 (B.C.S.C.) at 34:

> Where a plaintiff has established his legal right and the fact of its violation, he is in general entitled, as of course to a perpetual injunction, to prevent the recurrence of the wrong; unless there be something special in the circumstances of the case: *Imperial Gas Light and Coke Company v. Broadbent* (1859), 7 H.L. Cas. 612. I might add that the question of the balance of convenience or inconvenience in granting or withholding the injunction would not be applicable in this case. (at para. 24)

[324] The defendants rely on the test as stated in *Qureshi v. Gooch*, 2005 BCSC 1584:

> 28. The issuance of a permanent injunction is a discretionary order. In determining whether it is appropriate to grant a permanent injunction the court looks at the nature of the rights that the injunction is sought to protect and the surrounding circumstances, and attempts to balance the equities between the parties: *Cadbury Schweppes Inc. v. FBI Foods Ltd.*, [1999] 1 S.C.R. 142.
>
> 29. In determining whether it is appropriate to order a permanent injunction courts have considered a number of factors including:
>
> 1. whether an enforceable right and a threat/violation of that right exists: *Delta Hotels v. Okabe Canada Investments Co.* (1991), 81 Alta. L.R. (2d) 338 (Q.B.), var'd on other grounds 3 Alta. L.R. (3d) 85 (C.A.);
> 2. whether the applicant will suffer demonstrable harm: *Steeves Dairy Ltd. v. Twin City Co-operative Milk Producers Assn.*, [1926] 1 W.W.R. 25 (B.C.S.C.);
> 3. the hardship that would be caused to the defendant if a permanent injunction was granted compared to the hardship that would be caused to a plaintiff if he/she had to resort only to an award of damages: *Cadbury*;
> 4. the conduct of the parties; and
> 5. the effectiveness of an injunction.

[325] The plaintiff argues, however, that the test described in *Qureshi* is inapplicable outside of real property cases.

[326] As Robert J. Sharpe points out in *Injunctions and Specific Performance*, looseleaf (Aurora: Canada Law Book, 2010), in real property cases, conflicting property rights are in issue rather than outright appropriation of the plaintiff's property. He goes on to point out that in the intellectual property area, injunctions are a familiar remedy (para. 4.700).

[327] An injunction in cases like the present will ordinarily follow where (1) the plaintiff has a legal right in the property; (2) there is a real threat or an actual invasion of the legal right; and (3) there is no defence of laches, delay, acquiescence or estoppel: see Sharpe at para. 4.690.

[328] Injunctive relief is appropriate because the plaintiff is not seeking damages for future breach of confidence. If it were denied, the defendants would be permitted to sort semen using their intimate knowledge of XY's equipment and protocols without paying royalties to XY and in competition with other licensees in China, Canada or elsewhere who do pay royalties. The injunction is an appropriate remedy, both mandatory and prohibitory.

[329] The plaintiff's mandatory injunction is sought to deliver or destroy under oath confidential information of XY which is in the hands of the defendants. The defendants have no right to possess such information and indeed do not assert they do. The injunction does no more than hold JingJing and its employees and related companies who had access to the bargain struck under the CLA.

[330] Such a mandatory injunction is an ordinary ancillary remedy in intellectual property cases where an injunction is granted to restrain the use of the information. See Ronald E. Dimock, *Intellectual Property Disputes: Resolutions and Remedies*, Vol. 1, looseleaf (Toronto: Thomson Reuters Canada Limited, 2004), at 15.2.

[331] The defendants argue that no prohibitory injunction should be granted because the so-called confidential information is in the public domain. They rely on the testimony given by Mike Evans. Mr. Evans was employed by DakoCytomation Inc. from 1991 to 1997. He then worked for XY from 1997 to

2003. His job at XY included assisting new licensees to become accustomed to the technology.

[332] Mr. Evans has been with ST from 2003 to the present. He gave evidence about XY's technology and the separation of process.

[333] The defendants rely on the following questions and answers in cross-examination:

> Q. I am going to suggest to you, Mr. Evans, that everything you told us this morning about the process from ejaculate to freezing is information that is in the public domain. Agree or not agree?
>
> A. Agree.
>
> Q. You agree?
>
> A. Yes.

[334] This evidence must be placed in context. Mr. Evans was referring to what he had said in the first part of his testimony. A sealing order was made regarding the rest of his testimony. There was no suggestion made to him in cross-examination that his sealed testimony did not contain anything that was not in the public domain.

[335] As discussed above, I am satisfied that XY's protocols are confidential. They are only provided to licensees. The terms of the license represent an agreement by JingJing that the they are in fact confidential.

[336] The defendants also rely on the evidence of Jesse Zhu who testified that semen can be sorted without XY's confidential information.

[337] I do not find this evidence persuasive. For reasons explained above, I have not found Mr. Zhu credible. Moreover his evidence is uncorroborated. It is contrary to the detailed and credible evidence of Mr. Gilligan and of Mr. Evans.

[338] Finally, and as the plaintiff argues, it is difficult to understand why, if XY's technology was not required to sort semen, JingJing did not immediately terminate the CLA. Instead, JingJing acquired a third cytometer.

[339] The rationale for an injunction in circumstances like the present was explained by Binnie J. in *Cadbury Schweppes Inc.* at para. 85:

> The law would lose its deterrent effect if defendants could misappropriate confidential information and retain profits thereby generated subject only to the payment of compensation if, as and when they are caught and successfully sued.

[340] An injunction in the terms proposed by the plaintiff is granted.

Punitive Damages

[341] The plaintiff submits first of all that the compensatory damages it seeks in this case do not achieve the objectives of "retribution, deterrence and denunciation."

[342] Secondly, the plaintiff submits that the compensatory damages it seeks do not achieve the judicial goal of depriving the defendants of the profits of their wrongdoing.

[343] Based on the cases cited by the defendants, I agree that the conduct of the defendants, while obviously fraudulent and inappropriate, does not rise to the level of "truly outrageous" (see: *Hill v. Church of Scientology of Toronto*, [1995] 2 S.C.R. 1130 at para. 199) or "exceptionally reprehensible" (see: *Whiten v. Pilot Insurance Co.*, [2002] 1 S.C.R. 595 at para. 32).

[344] In *Hill*, the Church of Scientology held a press conference in which it "impugned the character, competence and integrity of Casey Hill" (para. 75). Hill instituted the proceedings to defend the allegations and won. Yet, the Church repeatedly attacked Hill's character at trial and "reiterated the libel even though it knew...[the] allegations were false" (para. 44). Even following the jury's verdict in Hill's favour, the Church published a press release to the media repeating the libel and publicly attacked the jury's verdict some weeks later.

[345] In *Whiten*, the plaintiff and her family suffered a fire in their home which completely destroyed it, forcing them into the cold of night when it was -18 degrees Celsius. The father suffered frostbite to his feet while his daughter went for help. Eventually the family rented a nearby winterized cottage for $650/month. The insurance company made a single $5000 payment for living expenses and paid the rent for a couple of months, then cut off the rent without informing the family. The insurer then pursued a confrontational policy, alleging arson despite the local fire chief and the insurer's own two experts' findings that there was no

evidence of arson. Eventually, the insurer's appellate counsel conceded there was no air of reality to the arson claim.

[346] The Supreme Court of Canada agreed with the Ontario Court of Appeal that the insurer's conduct was "exceptionally reprehensible" (para. 32) – it was "planned and deliberate and continued for over two years, while the financial situation of the appellant grew increasingly desperate" (para. 1).

[347] In the case at bar, the defendants' fraudulent actions are reprehensible, but I am not persuaded they fall into the category of "malicious" or "highly reprehensible" (*Whiten*, para. 94). In *Performance Industries Ltd. v. Sylvan Lake Golf & Tennis Club Ltd.*, [2002] 1 S.C.R. 678, heard concurrently with *Whiten*, the Court discusses the nature of punitive damages in cases of civil fraud. Binnie J. for the majority refers to the principles from *Hill* and *Whiten* and states, at paras. 81 and 87-88:

> [81] Torts such as deceit or fraud already incorporate a type of misconduct that to some extent "offends the court's sense of decency" and which "represents a marked departure from ordinary standards of decent behaviour", yet not all fraud cases lead to an award of punitive damages.
>
> ...
>
> [87] O'Connor's fraud was, of course, reprehensible. Indeed, fraud is generally reprehensible, but only in exceptional cases does it attract punitive damages. In this case, the trial judge, at para. 109, thought punishment above and beyond the payment of generous compensatory damages was required for two reasons, namely that O'Connor's actions (1) "demand an award which will stand as an example to others" and (2) "at the same time assure that O'Connor does not unduly profit from his conduct". These are both legitimate objectives for the award of punitive damages (Whiten, supra, at paras. 43 and 111). However, it must be kept in mind that an award of punitive damages is rational "if, but only if" compensatory damages do not adequately achieve the objectives of retribution, deterrence and denunciation.
>
> [88] This was a commercial relationship between two businessmen. One tried to pull a fast one on the other. There was no abuse of a dominant position. O'Connor's misconduct was planned and deliberate and he persisted in it over a period of four and a half years, but in the end the courts did their work and Bell obtained full compensation plus costs on a solicitor-client basis, all of which undoubtedly had a punitive effect on O'Connor. In addition, O'Connor is stigmatized with a judicial finding (now upheld by two appellate courts) that he acted in a way that was "fraudulent, dishonest and deceitful". His conduct has been soundly denounced and he has been required personally to pay a large amount of money in compensation. The respondent is unable to identify any aggravating circumstances that would not be present in almost any case of business fraud except that O'Connor was found to have behaved abominably in the

> conduct of the litigation. However, as stated, the trial judge excluded this consideration from the award of punitive damages because he identified it as the basis for his award of solicitor-client costs.

[348] In the circumstances of the case at bar, I agree with the foregoing comments from *Performance Industries*. These were sophisticated business entities and one tried to pull a fast one on the other. Further, the IND defendants are being punished by the principle of *omnia praesumuntur contra spoliatorem* as well as by my decision to award special costs, discussed below. As such, an award of punitive damages is inappropriate in this case.

Special Costs

[349] In *Mayer v. Osborne Construction Ltd.*, 2011 BCSC 914, Walker J. stated at para. 8 that "[s]pecial costs are punitive in nature and encompass an element of deterrence". They are a mechanism by which the court distances itself from "reprehensible conduct": see *Garcia v. Crestbrook Forest Industries Ltd.* (1994), 119 D.L.R. (4th) 740 (B.C.C.A.) Lambert J.A. in *Garcia* noted that the term "reprehensible" is given a wide meaning.

[350] Furthermore, referring to pre-litigation behaviour undertaken by the parties, Lambert J.A. stated in *Sun Life Assurance Company of Canada v. Ritchie* (2000), 2000 BCCA 231, that special costs "may be awarded because of the reprehensible conduct giving rise to the litigation, particularly where the fruits of the litigation do not provide any appropriate compensation in relation to the reprehensible conduct" (para. 54).

[351] The principal issues that ground a claim for special costs against the defendants in this case are the individual defendants' dishonest testimony and their failure to disclose relevant documents.

Dishonest Testimony

[352] At para. 14 of *Mayer*, Walker J. refers to cases that show that where a party is deliberate in providing untruthful testimony, special costs may be ordered: in *Chu v. Chu*, 2001 BCSC 1648, the plaintiff was found to warrant special costs in a family law matter for deliberately lying to the court on multiple occasions; in *S.S.G. Trucking Ltd. v Standard Building Maintenance Ltd.*, 2000 BCSC 812, the defendant warranted special costs after giving untruthful testimony and concocting

evidence to mislead the court; in *Chan Estate v. Hwang* (1999), 87 A.C.W.S. (3d) 647 (B.C.S.C.), the court awarded special costs after it found that the defendant had produced forged documents to support his case and failed to call witnesses who allegedly supported his evidence.

[353] Additionally, in *Clayburn Industries Ltd. v. Piper* (1997), 62 B.C.L.R. (3d) 24 (S.C.), the court dealt with a situation where the defendant's testimony was expressly contradicted by documents he failed to mention at discovery or disclose to the plaintiff (para. 51). Burnyeat J. finds that this, in combination with other behaviour, was "designed to mislead the court, obfuscate the truth, and to prolong the trial" (para. 90), and awarded special costs.

[354] In *Mayer*, Walker J. also notes recent decisions of the British Columbia Supreme Court where it was found that dishonest testimony alone was insufficient to warrant an order for special costs: in *EFP Holdings Ltd. v. British Columbia*, 2003 BCSC 870, it was found that the defendant's mistaken and misleading testimony was "not a deliberate lie or an attempt to mislead the Court"; in *Perez v. Vancouver (City)*, 2003 BCSC 579, it was found that the suspicious documents provided by the defendant were not proven to be forgeries and that the defendant had not relied on their authenticity when suspicions had been raised.

Failure/Refusal to Produce Documents

[355] The following cases are illustrative of the court's approach when dealing with parties who fail or refuse to disclose documents.

[356] In *Genesee Enterprises Ltd. v Abou-Rached*, 2001 BCSC 1172, Levine J. found that an award of special costs was appropriate because the defendants "did not disclose documents in the manner required by the Rules of Court, standards of practice, or in response to court orders" (para. 14). The disclosure was done "selectively, serially and late" (para 15); additionally, Levine J. found that some of the defendant's testimony was "obviously fabricated" (para. 18).

[357] In *Romfo v. 1216393 Ontario Inc.*, 2007 BCSC 1772, based on a failure to disclose and the plaintiff wasting time dealing with a hostile witness for the defence in discovery, Myers J. awarded costs for the "document production motions, the motions to compel further examinations for discovery and the

preparation for and conduct of the examination of [the hostile witness]" (para. 11). Myers J. ruled that, while the party's conduct was deserving of sanction, awarding special costs for the entire proceeding would "be disproportionate" (para. 10). *Romfo* is distinguished from the following case as the failure to disclose/produce information was not "as deliberate and serious" (para. 10).

[358] In *Laface v. McWilliams*, 2005 BCSC 1766, Kirkpatrick J. awarded special costs for the whole of the proceedings against the defendant hotel for failure to produce key reports and internal policies that "went to the core of the allegations against the hotel" (para. 29). Kirkpatrick inferred that there was a "deliberate intention to suppress the evidence (including from the hotel's trial counsel)... [and] is the kind of reprehensible conduct that is deserving of reproof" (para 38).

[359] In *Skadberg Construction Ltd. v. Buchholz*, 2010 BCSC 869, referring to the judgment from *Laface*, Gropper J. awarded special costs due to the defendant's "foolhardy recklessness' by failing to disclose information of which it was aware" (para. 75).

[360] The circumstances of this case dictate an award of special costs. The defendants' conduct has been reprehensible as that term was explained by Lambert J.A. in *Garcia*.

[361] There are two bases for this conclusion. First, I have found that the personal defendants, members of management and owners of the other defendants, have attempted to mislead the court. They were untruthful in their evidence. Second, there has been a failure to disclose documents. Moreover, some of the documents that have been disclosed were deliberately altered for purposes of misleading the plaintiffs and, eventually, this Court.

[362] The plaintiff is awarded special costs.

Summary

(1) There will be judgment in favour of the plaintiff in the amount of $8,507,891 against JingJing, Jesse Zhu, Selen Zhou and Tang Jin.

(2) These defendants are enjoined in the terms proposed by the plaintiff.

(3) The claims against the other defendants are dismissed.

(4) The plaintiff is entitled to special costs.

"Kelleher J."