May You Litigate in Interesting Times:
Specific Performance, Mitigation and Valuation Issues in a Rising (or Falling) Market

by

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Valuation of damages in breach of contract cases is frequently a judicial after-thought, relegated to the final few paragraphs of an otherwise well-reasoned decision. In other cases, seemingly straightforward questions like the proper measure of damages, the date of assessment, or the availability of equitable relief, can prove deceptively complex. In a rising or falling market, one such question is particularly trenchant: should a plaintiff’s damages award include or account for market effects beyond the control of the parties occurring between the date of breach and the date of trial?

This question, simple enough on its face, gives rise to complex valuation and remedy issues, particularly pronounced in matters involving preferential rights, or in disputes related to commodities whose price is subject to a fluctuating market. In such cases, questions such as the appropriate remedy, how to address multi-party preferential rights, the proper date of assessment, and how (or whether) to address mitigation, can significantly impact the measure and quantum of damages in a given case.

This paper focuses on issues of valuation and judicial remedies arising in litigation involving a rising or falling market. In addition to examining jurisprudence and academic authority considering valuation and judicial remedies questions, this paper provides practical insights and strategic guidance regarding how to properly structure the prosecution or defence of a claim in a rising or falling market, and what expert and fact evidence is necessary to support (or refute) a claim.

Part I of this paper discusses the threshold question of the appropriate remedy, with a focus on the implications of that question on market-dependent claims. Part II considers issues relating to the proper date of assessment. Part III addresses mitigation, and related theoretical contingencies. Throughout, the authors provide insight into several legal and strategic questions relating to pre-emptive rights, expert evidence on damages, and financial and valuation theories.

In addition, this paper identifies a conceptual problem with the quantification of damages in cases where the value of the loss is in part a function of market forces beyond the parties’ control: depending on the date of assessment, the plaintiff may wind up being compensated for losses that are not proximate to the breach, or (conversely) may be penalized for bringing suit during a down market. The authors suggest a potential solution to this issue that appropriately allocates market risk as between plaintiffs and defendants.

Ultimately, the goal of this paper is to provide a comprehensive analysis of legal, valuation and strategic issues relevant to litigation in a rising or falling market, in the hope that this summary will serve as a tool for litigants to prosecute, or defend against, claims in a fluctuating market, and assist industry participants to assess risk associated with litigation over market-dependent claims.
PART I.: The Threshold Question: Specific Performance or Damages

A. Semelhago & Uniqueness

In breach of contract litigation involving oil and gas properties, plaintiffs frequently pursue equitable claims for specific performance. The reason is simple: claimants often have a specific and identifiable interest in acquiring a particular property or asset.\(^1\) If a plaintiff is wrongly deprived of obtaining an interest in a specific property (whether it be commercial, industrial or residential real estate, oil and gas, or energy), the most desirable remedy is often an order compelling the transfer of the property itself, not damages intended to equal the value of a similar, but not identical, property.

Courts have traditionally granted equitable relief to plaintiffs who can establish a legal right to an interest in real property. Until recently, the default judicial assumption was that real property was “unique” and irreplaceable, similar to a work of art. In the words of Sopinka J., the common law assumed that: “Blackacre had no readily available equivalent”.\(^2\) Given this assumption, damages were not considered an adequate remedy in claims involving real property, and as such, the preferred remedy was specific performance.

In *Semelhago v. Paramadevan*, the Supreme Court of Canada criticized the judicial tendency to treat all real estate as unique, and to award specific performance as the default remedy. Sopinka J. rejected the long-held judicial belief that real estate is unique, based on the progress of modern real estate development, observing that: “If a deal falls through for one property, another is frequently, though not always, readily available.”\(^3\)

Having concluded that the traditional policy rationale for specific performance was outdated, *Semelhago* focused on “uniqueness” as the key consideration in whether to grant specific performance over real property. In that regard, Sopinka J. directed that specific performance should: “… not be granted as a matter of course absent evidence that the property is unique to the extent that its substitute would not be readily available.”\(^4\)

*Semelhago* has been criticized as replacing a “centuries old presumption” regarding the interchangeability of interests in land with an imprecisely defined “uniqueness analysis.” Professor Waddams argued that the approach employed by the Supreme Court adopted an unduly narrow focus:

\[\ldots\text{the case for change was based on the supposition that the only argument in favour of specific performance was that every piece of land was presumed to be unique, and that, since many prices of land in modern times were very similar, the rule rested on a kind of factual falsity and that a change in the traditional rule was required by principle.}\]

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\(^1\) As discussed below, there are also several other legal and strategic reasons for claiming specific performance, most notably as they relate to the duty to mitigate (discussed below).

\(^2\) *Semelhago v. Paramadevan*, 1996 CanLII 209 at para. 14 (SCC) [*Semelhago*].

\(^3\) Ibid. at para. 20.

\(^4\) Ibid. at para. 22.
But this approach does not do justice to the arguments in favour of the traditional rule, which may be supported on several grounds other than that every piece of land is unique. Specific performance of land sale contracts, in contrast to many other kinds of contract, is usually very practicable, and for two principal reasons: (1) the court itself can implement the decree directly, if necessary, very cheaply and effectively, by the stroke of a pen (i.e., there are no supervision problems); and (2) performance is unlikely in most cases to be unduly oppressive to the promisor. These are practical reasons for favouring specific performance in land sale cases that do not depend directly on proof of uniqueness, though uniqueness might become relevant where the traditional equitable defences are in issue, such as laches (is the plaintiff speculating unreasonably at the defendant’s expense?) or hardship (would the decree cause unreasonable hardship to the defendant or to a third party, considering the legitimate interests of the claimant?) or clean hands. The traditional rule did not give an absolute right to specific performance: specific performance was available as of course, (not “as of right”), i.e., under the traditional rule the remedy remained “discretionary” in the sense in which equity understands this concept, and this supplied a built-in protection against oppressive or unfair use of the remedy.  

In a similar vein, Orlando Da Silva characterizes Sopinka J.’s reasoning in Semelhago as fundamentally circular, remarking acerbically that: “[a]part from using the word ‘readily’, the Supreme Court of Canada merely held that the land is unique when it is unique. There ends the analysis- and with it three centuries of legal jurisprudence.” Subsequent case law clarified that the inquiry that Semelhago urges is actually not into the uniqueness of a particular property, but requires the Court to answer the broader question of whether in a given case damages are an adequate remedy.

**B. Beyond Uniqueness: Towards a “Critical Inquiry” Approach**

In John E. Dodge Holdings Ltd. v. 805062 Ontario Ltd., Lax J. cautioned that there is a “danger in framing the issue as one of uniqueness (a term that carries with it a pre-Semelhago antediluvian aroma).” Instead, Lax J. held that while uniqueness is an important consideration, the “fundamental question is whether the plaintiff has shown that the land rather than its monetary equivalent better serves justice between the parties.”

In Southcott Estates Inc. v. Toronto Catholic District School Board, (SCC), a case primarily dealing with the interaction between specific performance and the duty to mitigate, the Supreme Court of Canada revisited Semelhago, and clarified that although “uniqueness” was an important element in determining whether to award specific performance, the real question is

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7 John E. Dodge Holdings Ltd. v. 805062 Ontario Ltd., 2001 CarswellOnt 3984 at para. 55 (Ont. Sup Ct.) [“John E. Dodge Holdings”].
8 Ibid.
whether money can adequately compensate a plaintiff for its loss. Karakatsanis J. stated: “Specific performance will be available only where money cannot compensate fully for the loss, because of some “peculiar and special value” of the land to the plaintiff.”

In *Harle v 101090442 Saskatchewan Ltd.*, the Saskatchewan Court of Appeal nicely illustrated the interplay between “uniqueness” and the suitability of specific performance. The decision in *Harle* considered the sale of farmland west of Regina. The trial judge described the property as “... a once in a lifetime opportunity” and found that the property had “… no counterpart near the City in terms of proximity, size and single ownership[...].”

Notwithstanding these findings, Jackson J.A. set aside the trial judge’s order of specific performance because the plaintiff acquired the property for commercial investment purposes and the property’s uniqueness (size, single ownership and proximity to Regina) only enhanced “the land’s use with a view to maximizing revenues and, in turn, profits.” In other words, money was an adequate remedy even though the property was, in many respects, “unique.” The following passage is instructive:

[… the trial judge misapprehended the extent to which Semelhago changed the law of specific performance. He did not give sufficient weight to the nature of this property, and he started with the wrong question, i.e., whether the property is unique, rather than whether damages are an adequate remedy.

In *Raymond v. Raymond Estate*, Caldwell J.A. confirmed that the judicial inquiry into determining the appropriateness of specific performance is not a search for uniqueness, but rather an assessment of whether damages would be an inadequate remedy. In practical terms, this means a plaintiff must demonstrate “that the subject property is specially suited to the purchaser and that a comparable substitute property is not readily available.” The court, in turn, must determine “whether the justice of the matter calls for an award of specific performance because damages would be inadequate.”

In *Damages and Specific Performance: A Tale of Two Remedies*, Marguerite Moore posited that factors such as “uniqueness, adequacy of damages, and the requirement of a fair, real and substantial claim to specific performance” are “intertwined” in the calculus of determining whether to grant specific performance.

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9 Southcott Estates Inc. v. Toronto Catholic District School Board, 2012 SCC 51 at para. 38 (SCC) [Southcott].
10 Harle v 101090442 Saskatchewan Ltd, 2014 SKCA 6 at para. 121 (SKCA) [Harle].
11 Ibid. at para. 96.
12 Ibid. at para. 101.
13 Raymond v. Raymond Estate, 2011 SKCA 58 at para. 15 (SKCA) [Raymond Estate].
14 Ibid.

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Semelhago was to open the door to a critical inquiry as to the nature and function of the property in relation to the prospective purchaser. ...16

C. Relevant Considerations in the “Critical Inquiry” Approach

The “critical inquiry” approach to specific performance contemplated in 904060 Ontario Ltd. has been endorsed in several subsequent decisions.17 While the “critical inquiry” approach provides an overarching test and principled basis to consider the appropriateness of awarding specific performance, it does not provide specific criteria to guide this inquiry. Subsequent case law has provided the following key points and guidance to assist in determining whether money can adequately compensate a plaintiff fully for a loss, considering the peculiar and special value of the property in question:

- Specific performance is a matter of judicial discretion.18

- Given the equitable nature of the remedy, coupled with the fact that specific performance is a matter of judicial discretion, considerations such as clean hands, delay, and potential for a “windfall” to either the plaintiff or defendant, are relevant to the inquiry and may impact a plaintiff’s entitlement to specific performance.

- A plaintiff may claim specific performance and damages, and make an election at trial.19

- The claimant has the onus to establish that damages would be an inadequate remedy.20

- A plaintiff is not required to prove a negative and demonstrate the complete absence of comparable properties.21

- A prospective purchaser bears the burden of adducing evidence that the subject property is specially suited to the purchaser and that a comparable substitute is not readily available.22

- While at trial the plaintiff bears the onus of demonstrating damages would be an inadequate remedy, in an application under applicable land titles legislation to discharge a caveat or certificate of pending litigation, the moving party (defendant) bears the onus.23

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17 John E. Dodge Holdings, supra note 7 at para. 54 (Ont. Sup Ct.); 1244034 Alberta Ltd. v. Walton International Group Inc., 2007 ABCA 372 at para. 3 (ABCA) [“Walton”]; Raymond Estate, supra note 13 at para. 15.
18 Walton, supra note 17 at para. 2.
19 John E. Dodge Holdings, supra note 7 at para. 58 (Ont. Sup Ct.)
21 John E. Dodge Holdings, supra note 7 at para. 57 (Ont. Sup Ct.)
22 Raymond Estate, supra note 13 at para. 15.
23 Youyi Group Holdings (Canada) Ltd. v. Brentwood Lanes Canada Ltd., 2014 BCCA 388 at para. 39 (BCCA) [Youyi Group Holdings].
- Uniqueness does not mean singularity; it means that the property has a quality (or qualities) that makes it especially suitable for the proposed use that cannot be reasonably duplicated elsewhere. The plaintiff need not show that the property is incomparable.  

- The court must determine the plaintiff’s true intentions so as to avoid a speculative lawsuit for profit.  

- If an accurate assessment of damages is not possible, or if the exercise of assessing damages is speculative and conjectural, specific performance may be appropriate.  

- The proper inquiry is not a mere consideration of the nature and function of the land. The relevant inquiry with respect to whether or not the property is “unique” is whether the evidence of replaceability for the purchasers’ purposes is sufficient.  

- Where performance of the defendant’s obligation would require a complex series of acts or the maintenance of an ongoing relationship, the remedy of specific performance will ordinarily be refused; however, such orders will be made where justice requires.  

While the outcome of any critical inquiry hinges on the facts of each particular case, it is clear that “specific performance has become the same kind of extraordinary remedy as an injunction; [and that] damages are the usual remedy.” For example, in Gillespie v. 1766998 Ontario Inc. (Ont. S.C), Myers J. acknowledged that Semelhago “severely limited the availability of the remedy of specific performance.” Myers J. went further, suggesting that, when Semelhago was read in conjunction with the Southcott, there only remained “the narrowness of the sliver of room left for true cases of specific performance [...].”  

Nevertheless, Myers J. ultimately awarded specific performance in that case; however, Gillespie was a case involving residential real estate. Courts have been far less willing to entertain specific performance as a remedy in commercial matters (whether it be commercial real estate, or energy related interests in land), particularly those involving investment properties. 

In John E. Dodge Holdings, Lax J. addressed the difference between pursuing a claim for specific performance in residential cases, as opposed to commercial matters. Lax J. noted that there is a “subjective and objective aspect to uniqueness”, and that generally, “the subjective aspect will be less significant in commercial transactions and more significant in residential

24 John E. Dodge Holdings, supra note 7 at para. 60.  
25 Walton, supra note 17 at para. 6.  
26 Youyi Group Holdings, supra note 23 at para. 44.  
27 Walton, supra note 17 at para. 4.  
29 Moore, “A Tale of Two Remedies” supra note 15.  
30 Gillespie v. 1766998 Ontario Inc., 2014 ONSC 6952 at paras. 26, 31 (Ont. Sup Ct.).  
31 Ibid.  
32 2144688 Ontario Ltd. v 1482241 Ontario Ltd., 2016 ONSC 1475 at para 31; Strategic Acquisition Corp v Starke Capital Corp, 2017 ABCA 250 at para 47 [Strategic Acquisition].
purchases.”

Although uniqueness does not equate to “singularity”, it does require that “the property has a quality (or qualities) that makes it especially suitable for the proposed use that cannot be reasonably duplicated elsewhere.” Given overarching profit motives and the fungible nature of most, but not all, commercial assets (whether it be commercial real estate or oil and gas interests), Lax J. suggested, perhaps a little too definitively, that: “Obviously, investment properties are candidates for damages and not specific performance.”

In *Domowicz v. Orsa Investments Ltd*, (Ont. Gen. Div.), Adams J. declined to award specific performance in a case involving a commercial real estate opportunity, reasoning that:

... A commercial purchaser usually seeks to profit from his investment. If the vendor refuses to complete the sale of (say) this apartment building, other buildings or other investments are readily available: if the only available investments are less attractive, damages can be awarded to ‘compensate’ the plaintiff for the diminished quality of his investment. The argument that all land is somehow ‘unique’ should not be allowed to obscure the fact that it is not ‘unique’ in any contract-remedial sense to a commercial purchaser, in respect of whom the land is little more unique than fungible chattels. Its only ‘uniqueness’ to him rests in its unique market value, but market value assessment of real estate is usually available.

One commentator noted that following *Semelhago*, “[p]roperties purchased as an investment or for capital appreciation are now unlikely to ever qualify for specific performance.” According to the authors of the *Law of Real Property*, a purchaser acquiring lands for investment purposes would find it “exceedingly difficult” to satisfy the “onus of establishing that damages would be an inadequate remedy in the particular circumstances.” And, finally, Professor Moore suggests that: “… recent legal developments reflect an erosion of the availability of specific performance in general and a preference for damage awards, particularly in the context of commercial transactions.”

This is not to say that specific performance is never available in claims pertaining to commercial property, or where an asset or interest is acquired for investment purposes. Courts regularly state as much when summarizing the law on specific performance in this context. For example, in *Walton*, the Alberta Court of Appeal commented that “the Court [in *Semelhago*] did not conclude that specific performance will never be available in the case of property acquired

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33 John E. Dodge Holdings, *supra* note 7 at para. 60.
36 Theodore Rotenberg, Case Annotation --- *John E. Dodge Holdings Ltd. v. 805062 Ontario Ltd.*, 2001 CarswellOnt 3984 (Ont. Sup Ct.)(Westlaw), Dodge, *son Semelhago: Another guide for the continually perplexed*.
38 Moore, “A Tale of Two Remedies” *supra* note 15.
40 *Walton, supra* note 17 at para 2; *Strategic Acquisition, supra* note 32 at paras 34-35; *Covlin v Minhas*, 2009 ABQB 42 at paras 43-35, aff’d 2009 ABCA 404 [*Covlin*].
for investment purposes. Rather, the relevant inquiry will be whether the property is “unique” or whether damages are an adequate remedy. It follows that specific performance remains a matter of discretion for the trial judge.”

The British Columbia Court of Appeal also recently stated that: “the Supreme Court [in Semelhago and Southcott] has not signalled that specific performance is ‘on the way out’ or that contracting parties should no longer expect to be held to their bargains.” There is a significant body of case law where courts have awarded specific performance in the commercial / investment context.

One of the identifiable themes in cases where the courts award (or refuse to award) specific performance in the commercial / investment context, is an examination of the nexus between the property or interest, and the plaintiff’s wider asset mix and business plans. In Walton, Berger J.A., writing for the majority, endorsed a “business rationale” approach to considering specific performance in the commercial context:

"... What is emerging is a ‘business rationale’ test for which the (subjective) business case for desiring the particular commercial property is examined through a due diligence (objective) appraisal by the court. Thus, the court will examine the nexus between the plaintiff’s business plan and the amenities of the subject property. Specific performance may be granted if those amenities cannot readily be found elsewhere."

Similarly, in Harle, the Saskatchewan Court of Appeal overturned a trial decision that awarded specific performance based, in part, on the “critical” finding that the plaintiff (a development corporation) did not have a specific plan to develop the land. Rather, the plaintiff was prepared to take a “wait and see” approach concerning the property. The Court of Appeal reasoned that the plaintiff’s failure to adduce evidence regarding a business plan or proposed development “removed from the table the consideration of methods of calculating damages other than the increase in value of the land.” As such, the plaintiff could not establish that money could not compensate for its loss.

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41 Walton, supra note 17 at para 2.
42 Youyi Group Holdings, supra note 23 at para. 52.
43 A purchaser was awarded specific performance on a contract for the purchase of a development property, because the purchaser had long-term development plans (Covlin, supra note 40); a hotelier that exercised business judgment to build a new structure adjacent to a tourist attraction was awarded specific performance (John E. Dodge Holdings, supra note 7); the court granted specific performance relating to an apartment building that was, along with other properties, part of a developer’s wider development plans (532782 B.C. Inc. v. Republic Financial Ltd., 2001 ABQB 581 at para 27 (ABQB); specific performance was awarded because the purchaser already owned 80% of the units in the condominium and the unit being purchased was a crucial component of intended development (2475813 Nova Scotia Ltd. v Lundrigan, 2003 NSSC 48); specific performance was awarded because the piece of land was unique to the purchaser, in that it was necessary in order to move forward with development plans (11 Suntract Holdings Ltd. v Chassis Service & Hydraulics Ltd., 1997 CarswellOnt 4804, [1997] OJ No 5003 (Ont. Sup. Ct.)).
44 Walton, supra note 17 at para. 6.
45 Harle, supra note 10 at para. 86.
46 Harle supra note 10 at para. 92.
In *Covlin v. Minhas*, 2009 ABQB 42 (ABQB), a case involving a residential real estate transaction, Lutz J. granted specific performance based on a plaintiff’s plans to develop a residential property as part of a wider development strategy involving several adjacent commercial lots, which she directly or indirectly controlled. In granting the order, Lutz J. observed that courts have granted specific performance in cases: “where the plaintiff has a longer-term development plan for the subject property, or where the subject property makes a significant addition to other properties already owned by the plaintiff.” 47 Lutz J. ultimately determined that:

... whether or not the Plaintiff’s business plan can ultimately be realized is not the relevant inquiry. Instead, the question is whether a substitute property is readily available. I have concluded that this particular parcel of land is unique for the Plaintiff’s purposes, and that a substitute property is not readily available. Furthermore, damages would not be a complete or adequate remedy to the purchaser in this case. I conclude that the Plaintiff is entitled to an order for specific performance of the RREPC. 48

The above cases, and others, suggest that courts will entertain a claim for specific performance in the commercial context where a plaintiff can adduce evidence demonstrating that the contested property interest is unique to, and ideally integrated into, and an important part of, a plaintiff’s wider business interests or asset mix; or, at minimum, that the plaintiff has a development plan or strong business rationale (that cannot be easily duplicated elsewhere) for pursuing a particular property.

**D. Specific Performance in the Oil & Gas Context**

In the oil and gas context, it will be difficult, if not impossible, to justify a claim for specific performance based solely on the attributes of a particular lease or asset. No matter how prodigious the asset, when viewed as a stand-alone proposition, the property is still only a revenue generating asset producing a highly fungible resource that is freely traded in a global market. As such, almost without exception, money can compensate a plaintiff for its loss.

Therefore, in order to credibly pursue a claim for specific performance in energy related litigation, it is necessary for the plaintiff to enlarge the aperture and capture a wider and more nuanced picture of the claim. A plaintiff may bolster its claim to specific performance by providing evidence relating to the distinctiveness of the particular interest (why a particular lease or opportunity is desirable, compared to other similar assets), and more importantly, explaining how and why the plaintiff is uniquely situated to exploit the interest as part of its wider business strategy.

Depending on the facts of the case, a plaintiff may be able to argue that some or all of the circumstances below create a compelling business rationale for why a particular property has special value to the plaintiff such that damages cannot adequately compensate for its loss:

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47 *Covlin, supra* note 40 at para. 50.
- If the property is adjacent to other assets owned or controlled by the plaintiff (or if the plaintiff already has a working interest in the asset but is looking to expand that working interest), this may provide an opportunity for the plaintiff to expand its holdings in a key development area thereby creating synergies at no, or little, additional costs, or allow the plaintiff to gain or exploit market share in a particular area.

- A plaintiff may be able to argue that the asset in question can be linked to other assets or infrastructure owned by the plaintiff (such as a pipeline, facility, or processing facility) thereby forming a supply or distribution chain that adds strategic value and creates a competitive advantage.

- The contested interest may increase the plaintiff’s interest in a property or area beyond the threshold to exercise majority control, and put the plaintiff in a position to assume operatorship of the asset. This may be particularly relevant where the plaintiff has business or develop plans relating to the asset that differ from the existing operator.49

- The plaintiff may have a particular technical, operational or geological understanding of an area or asset based on its nearby or adjacent interests that provides unique opportunities to exploit or develop the asset. Conversely, acquiring the asset may provide insights into technical, operational or geological matters that could benefit the plaintiff elsewhere. Depending on the availability of other, similar assets in the vicinity or jurisdiction, this could support a scarcity argument, particularly when coupled with evidence of how the asset fits within the plaintiff’s larger asset mix.

- The working interest partners in the asset, or even the operator of the asset, may allow for the plaintiff to capture synergies in its wider business relationships, or provide other relationship based competitive advantages to the plaintiff.

The decision of the Alberta Court of Queen’s Bench in Canlin Resources Partnership v Husky Oil Operations Limited is a recent example of the array of arguments that a plaintiff can marshal in support of a claim for specific performance. In Canlin Resources, Romaine J. considered an application by Canlin for a declaration that it was entitled to a right of first refusal (ROFR) with respect to the sale of a gas facility owned as joint venture partners by Canlin, Husky (the respondent), and a third party. Canlin also sought an order for specific performance of the right of refusal provisions in the contract.

Husky, as operator, had shut down and decommissioned part of the facility, which prevented Canlin from processing gas in the facility. Other parts of the facility remained operational. Since decommissioning, Canlin consistently advocated that Husky operationalize the facility (at a cost of approximately $1.5M). Canlin also expressed interest in assuming ownership and operatorship of the facility.

Romaine J. ultimately held that the ROFR had been triggered. In awarding specific performance, Romaine J. held that Canlin established that the facility was “critically important”

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49 Canlin Resources Partnership v Husky Oil Operations Limited, 2018 ABQB 24 at para. 50 (ABQB) [Canlin Resources].
to its operations, as it provided “a critical link between Canlin’s wells and infrastructure owned partly or wholly by Canlin [...].”

Romaine J. also noted that: (1) Canlin asserted its claim for specific performance “early and repeatedly”; (2) Canlin lead evidence about third party transportation and processing fees incurred in processing its gas elsewhere, and that would be avoided if specific performance was granted; (3) Canlin asserted, and lead evidence that, “without being able to purchase a majority interest in the Facility through the exercise of its ROFR, it will be at the mercy of whoever acts as operator of the Facility”; and (4) although the third party purchaser, Ikkuma, would be prejudiced by the order for specific performance, “Ikkuma cannot be said to have been unaware of Canlin’s claim before closing the balance of the transaction.”

Awards of specific performance in the oil and gas context are rare, however, the decision in Canlin Resources demonstrates that, given the appropriate facts, the courts will entertain equitable relief in a commercial context, even if this involves and impacts third party rights.

E. The Need to Act Quickly – Specific Performance as Front-End Loaded Litigation

As is evident from Canlin Resources, the need to assert, and act upon, a claim for specific performance “early and repeatedly” is fundamentally important. Technically, a plaintiff can claim specific performance and damages, and make an election at trial. However, commentators have noted that specific performance litigation is “front-end loaded”, meaning that early notice and quick action becomes a de facto requirement to credibly pursue specific performance remedy.

Quick action is important for a few reasons.

First, a claim for specific performance frequently impacts third party rights. This creates a positive obligation, in practice, if not technically, for a claimant to provide notice of the claim and seek immediate legal action. If a plaintiff fails to provide notice, or litigates at a leisurely pace, the risk is that events (strategic decisions, investments, changing business climate, further

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50 Ibid. at para. 50.
51 Ibid. at para. 60. The authors understand that the Canlin Resources decision is currently under appeal.
52 Equity will not provide specific performance where the common law remedy is adequate, the common law could provide a remedy protecting the plaintiff’s royalty rights which would put the plaintiff in its original position and specific performance denied (Masai Minerals Ltd. v Heritage Resources Ltd., 1979 CarswellSask 54, [1979] 1 ACWS 232, aff’d [1981] 2 WWR 140 (SKCA)); the plaintiff did not strictly comply with time periods set out in the ROFR, specific performance was not available to revive the plaintiff’s rights (Blaze Energy Ltd. v Imperial Oil Resources, 2014 ABQB 326); the appellants were not entitled to a right of first refusal and as such could not be entitled to the remedy of specific performance (Two Forty Engineering Ltd. v Platte River Resources Ltd., 1996 CarswellAlta 296, [1996] AJ No 298 (ABCA); specific performance can be sought as an interim remedy, however a particularly clear case must be demonstrated. Where the complexity of operations will cause significant inconvenience, it will not be appropriate to order pre-trial contractual enforcement (Amoco Canada Petroleum Co. v Alberta & Southern Gas Co., 1992 CarswellAlta 89, [1992] 5 WWR 431.
53 John E. Dodge Holdings, supra note 7 at para. 58.
transfers) outpace litigation and it becomes exceedingly difficult, if not impossible, to “unscramble the egg”.\textsuperscript{55}

In cases involving unrelated third parties (even third parties with knowledge of a claim), the equities will increasingly weigh against the plaintiff the longer it takes to prosecute a matter. For example, in \textit{Canlin}, Romaine J. gave significant consideration to the impact on third party rights in granting specific performance, ultimately finding that some degree to prejudice to third party rights was acceptable given that Canlin “asserted its right to a ROFR early and repeatedly” and that the third party was aware of the claim before the transaction closed.\textsuperscript{56}

Second, the fundamental assertion informing any specific performance claim is that damages cannot compensate a plaintiff fully for its loss, because of some “peculiar and special value” of the property / interest / asset to the plaintiff.\textsuperscript{57} It is antithetical for a plaintiff to assert that an interest is unique and (at least in the commercial context) important for pressing business purposes, and to then fail to take expeditious steps to seek legal recourse. In \textit{Harle}, the uniqueness of the land in question was undermined by the plaintiff’s willingness to “take a wait and see approach”\textsuperscript{58}; clearly, business rationales quickly become stale-dated if quick and decisive action is not taken. In most, if not all, cases, failure to act quickly significantly detracts from the credibility of a claim of uniqueness.

Third, and related to the above point, specific performance is an equitable remedy. The courts will determine the true intentions of the plaintiff so as to avoid a speculative lawsuit for profit.\textsuperscript{59} If a plaintiff takes a “wait and see” approach to determine how well a particular property or asset performs, or how the wider market performs, before commencing an action, a court will likely refuse to exercise its discretion to award specific performance.\textsuperscript{60} Perhaps a more common example is when a plaintiff commences litigation, but then prosecutes the action at a slow pace.\textsuperscript{61}

\textsuperscript{55} The term “unscramble the egg” is frequently used in cases involving a related judicial remedies issue -- injunctions, particularly at the “balance of convenience” stage of the analysis (See \textit{MD Management Ltd. v. Dhut}, 2004 BCSC 513 at para. 42 (BCSC)) -- but it is equally relevant in specific performance context.

\textsuperscript{56} \textit{Canlin Resources, supra} note 49 at para. 54.

\textsuperscript{57} \textit{Southcott, supra} note 9 at para. 38.

\textsuperscript{58} \textit{Harle, supra} note 10 at para 86.

\textsuperscript{59} \textit{Walton, supra} note 17 at para. 6.

\textsuperscript{60} Specific performance, being an equitable remedy, can be lost due to delay (\textit{Pitblado & Hoskin v Swerid}, 2003 MBCA 134 at para 23).

\textsuperscript{61} Specific performance is often inappropriate simply because of temporal considerations: by the time the case comes to trial or is otherwise resolved, it is very often too late for performance (Robert J. Sharpe, \textit{Injunctions and Specific Performance}, (Toronto: Thompson Reuters, 2017) (loose-leaf 2017), at 7.150); the most cited statement of the law regarding specific performance is that a party cannot call upon a Court of Equity for a specific performance unless he has shown himself ready, desirous, prompt and eager (\textit{Mills v. Haywood} [1877], 6 Ch. D. 196 at 202); the plaintiff vendor was entitled to specific performance, but the plaintiff had also been mining the property for over four years awaiting resolution of the litigation. The judge held that ordering specific performance would just lead to further litigation and damages in lieu were more appropriate (\textit{Inmet Mining Corp. v Homestake Canada Inc.}, 2002 BCSC 61 at 405, aff’d in part 2003 BCCA 610; further, the promptness of the claim will affect the duty to mitigate. Where there is a prompt claim for specific performance (and a fair, real and substantial justification for the claim), the plaintiff may not be required to acquire replacement property (\textit{USB Securities Canada Inc. v Sands}}
Fourth, as discussed below, there may be land titles issues and registrations against title that require a prompt resolution so as not to unduly tie up lands.\textsuperscript{62}

In a practical sense, the requirement to assert a claim for specific performance “early and repeatedly” means commencing litigation immediately, preferably before the transaction in question closes. The plaintiff should consider bringing an immediate application for a declaration and specific performance, or seek injunctive relief. In \textit{Canlin}, the plaintiff acted quickly to seek judicial intervention. In September 2017, Husky gave notice its intention to sell the facility. Canlin commenced litigation. The closing of the facility sale was placed in escrow pending the outcome of the application. A decision was issued on January 11, 2018.\textsuperscript{63}

\textbf{F. Registrations & Land Titles Considerations}

At minimum, a plaintiff who intends to pursue a claim for specific performance (or damages in lieu of specific performance) should consider taking steps to register a caveat and file a certificate of \textit{lis pendens} (CLP) against title. Land titles legislation generally permits any party “claiming” an interest in land to file a caveat to protect that interest.\textsuperscript{64} A purchaser relying on a purchase and sale agreement for land is generally treated as having an “interest in land” that would support a caveat, subject to an examination of the appropriate remedy.\textsuperscript{65} A registered notice on title prevents a defendant from freely dealing with the property, and addresses some of the concerns around advance notice and third party prejudice raised in \textit{Canlin}.

There are several factors to consider when registering a claim against title, and potentially significant consequences and ramifications if the claim is determined to be invalid.\textsuperscript{66} In fact, both the lawyer and the client may be liable for slander of title or abuse of process if it is later found that no reasonable claim existed, and a CLP was registered.\textsuperscript{67} There is also some ambiguity, at least in Alberta, regarding the interaction between the Torrens system, registration and discharge of caveats, and the remedy of specific performance.\textsuperscript{68}


\textsuperscript{62} See, for instance, Slatter J.A.’s comments (in dissent) and quickly progressing a claim: \textit{Walton, supra} note 17 at para. 43.

\textsuperscript{63} \textit{Canlin Resources, supra} note 49 at paras. 3 and 5.

\textsuperscript{64} \textit{Walton, supra} note 17 at para 30; see also \textit{Land Titles Act}, RSA 2000, c L-4, s. 130; and \textit{Land Title Act}, RSBC 1996, c 250, s. 282; and \textit{Land Titles Act}, SNB 1981, c L-1.1, s. 30(1).

\textsuperscript{65} \textit{Walton, supra} note 17 at paras. 16, 17, and 36.

\textsuperscript{66} See Moore, “A Tale of Two Remedies” \textit{supra} note 15.

\textsuperscript{67} It is possible for a wrongful filing of a CPL to give rise to a cause of action for slander of title as well as abuse of process (\textit{First Canadian Land Corp. v Rosinante Holdings Ltd.}, 1985 CarswellBC 111, at para 22, [1985] BCWLD 1688); slander of title is actionable where a lien, CPL, or other notices against title, operate as a cloud upon the plaintiff’s rights to the property and make third parties avoid the property (\textit{Western Surety Company v Hancon Holdings Ltd. et al.}, 2007 BCSC 180 at para 50); there must be evidence of a dishonest or improper motive which goes beyond mere carelessness. Careless filing of erroneous information did not raise to the level of ‘malice’ required for slander of title (\textit{O’Neill et al. v Edmanson}, 2017 NBCA 33 at para 46).

\textsuperscript{68} \textit{Walton, supra} note 17 at paras. 16 – 18, but see Slatter J.A. dissenting opinion, specifically at paras. 16, 17, 32 – 43.
Irrespective of the procedural mechanism, a registration against title will almost certainly be challenged. As such, as part of the registration process, it may be necessary to demonstrate that there is a triable issue, which will necessarily involve evidence and argument regarding why the property is unique and why damages are inadequate.69 The onus at this preliminary stage of the litigation is on the party moving to discharge the certificate.70

For example, in Youyi Group Holdings (Canada) Ltd. v. Brentwood Lanes Canada Ltd., 2014 BCCA 388 (BCCA), the claimant filed a CLP against title relating to a disputed purchase and sale agreement. The respondent brought an application, pursuant to the Land Title Act, R.S.B.C. 1996, c. 250, to cancel the CLP. Newbury J.A. set out the following standard for discharging a CLP:

... where specific performance is being sought and the court is considering an application to order the cancellation of a [CLP] ..., it is for the applicant (here, the Vendor) to satisfy the court that it is plain and obvious the person seeking specific performance would not succeed on that claim at trial. If there is a triable issue as to whether damages would provide an adequate (or appropriate) remedy, the application should be dismissed and the matter proceed to trial.71

In Walton, the Alberta Court of Appeal considered whether a putative purchaser of land is entitled to maintain a caveat against the land. The putative purchaser, 1244034 Alberta Ltd. (124), entered into a purchase and sale agreement with a vendor, Walton, relating to development lands. Under a separate contract, Walton provided a ROFR to certain investors. One of the investors, Bailey, exercised the ROFR. When Walton refused to close the deal with 124 based on the exercised ROFR, 124 filed a caveat and certificate of lis pendens to protect its interest, and brought an application for an interim injunction restraining the conveyance of the land to Bailey. Walton applied to discharge the caveat and certificate of lis pendens. The hearing judge discharged the caveat and certificate of lis pendens, and refused to grant 124’s interim injunction.

In dismissing the appeal, and thereby upholding the hearing judge’s decision to discharge the caveat on the basis that damages would be a sufficient remedy should liability be established, Berger J.A. (for the majority), held that:

Alberta law is well settled that on an application to discharge a caveat based on an agreement for the purchase and sale of land, a finding that damages would be an adequate remedy is sufficient to discharge the caveat. The determination of the chambers judge was thus correct in law and is supported by sound policy considerations. Once it has been determined that damages are an adequate remedy, there is no “interest in land” capable of protection by caveat. With no

69 Moore, “A Tale of Two Remedies” supra note 15.
70 Youyi Group Holdings, supra note 23 at para. 39; see also Kansun Homes (Toronto) Ltd. v Transnation Plaza Corp., 2003 CarswellOnt 2815 at para 11, [2003] OJ No 2996; and Dynacorp Canada Inc. v Curic, 2010 ONSC 2603 at para 17.
71 Youyi Group Holdings , supra note 23 at para. 39.
interest in the land required to be protected, there is no basis to tie up development of the land pending resolution of the litigation.\textsuperscript{72}

The above authorities suggest that a key challenge for litigants claiming specific performance will be to act quickly, and to provide an evidentiary basis to support a persuasive “business rationale” for why a particular asset / property is unique, and why damages cannot compensate for the loss.

PART II.: The Law, Policy & Theory re: Valuation Date

\textbf{A. Allocation of Risk & Date of Assessment}

Because the valuation of damages in commercial contract cases is so often the subject of expert evidence, it is easy to forget that the concerns that animate valuation questions arise chiefly from legal, and not accounting, considerations. One such example is the selection of an appropriate valuation date, normally dealt with by accounting experts by calculating contractual loss on a discounted cash flow basis from the time of the breach up to the date of trial.\textsuperscript{73} In other instances, a date-of-trial valuation date is selected, perhaps to account for a foregone right to specific performance or damages in equity, or to include empirical facts arising after the date of breach on the argument (variously put forward by either plaintiffs or defendants depending on the circumstances) that the Court should avoid speculating and have regard for the actual facts. The result is often a dizzying battle-of-the-experts in which competing valuation theories are tested against one another together with competing calculations of discount rates, cost of capital, and competing sets of comparable entities for valuation purposes.

Yet the legal principle that underlies this bedeviling complexity appears on its face to be straightforward and simple: it is based on the proposition that contractual damages are to be measured in such a way as to place the innocent party, “so far as money can do so, in the same position as if the contract had been performed.”\textsuperscript{74} These words serve as a helpful reminder that the sometimes complex question of “what damages” will often turn on the nature of the original bargain between the litigants.

The date of assessment is a vital component of the analysis. As the saying goes, time and tide wait for no man; the conditions, circumstances, commodity prices and market circumstances that existed at the date of breach are often distant memories by the time of trial, at which time the Court bears the unenviable task of fashioning a remedy for the parties that appropriately accounts for the benefit of hindsight and appropriately allocates the risk of a fluctuating market in accordance with the parties’ original bargain.

\textsuperscript{72} Walton, supra note 17 at para. 17.
\textsuperscript{73} This approach is described by Jonathan Levy as an “estimation ... made by starting with the ‘market or use value’ of the performance at the time of the breach, and then capitalizing that amount from the time of breach until the judgment, according to a predetermined interest rate.” Jonathan Levy, “Against Supercompensation: A Proposed Limitation on the Land Buyer’s Right to Elect between Damages and Specific Performance as a Remedy for Breach of Contract,” 35 Loy. U. Chi. L.J. 555 (Levy, “Against Supercompensation”) at 556.
This concept of allocation of risk is crucial to the issue of selecting an appropriate date of assessment when damages are pegged (in whole or in part) to the fluctuating value of a commodity. A common example occurs in disputes over the ownership of producing oil and gas rights, such as where two parties jointly own interests in oil and gas producing assets under a joint operating agreement, and have granted one another preferential purchase rights over the subject interests.

Such preferential purchase rights may or may not attract specific performance as a remedy; however, as is set out above, it is likelier than not that where the parties owned the interests for the sole purpose of trading in a fungible commodity in order to make money, damages are likely adequate, and specific performance will accordingly be unavailable. However, this leads to a thorny question: what damages, and as of what date?

It is well to recall that at the outset the parties held interests in a fluctuating asset, and each of them shared equally in the risk that the value of that asset might change. This fact is fundamental to the bargain of joint ownership: both parties knew that benchmark commodity prices would partly determine the profitability of the interests they held. Implicitly, the parties agreed that they would each benefit from increases in those benchmark prices, and each would bear its own risk of the market value of the asset dropping. In the oil and gas industry, parties normally do not ask for market hedges or indemnities against market fluctuations under joint ownership contracts. The allocation of market risk as between joint owners of a producing asset is simply a function of each joint owner’s relative interest in the property.

In theory, damages for the breach of a preferential right should therefore maintain, not alter, that allocation of market risk as between the contracting parties. The purpose of damages is to put the innocent party in the same position as it would have been in had the contract been performed. Unfortunately, traditional approaches to valuing damages, in particular with regard to the date of assessment of damages, are almost certain to change the fundamental terms of the original bargain.

**B. An Illustrative Example**

The two most common valuation dates are the date of contractual breach,75 and the date of trial. Both approaches often have the unfortunate result of allocating market risk between the parties in a way that the original contracting parties could never have envisioned and almost certainly did not intend. To understand why, it is helpful to consider a hypothetical scenario:

Party A and Party B jointly own an interest in certain unitized oil and gas leases. Party B is the operator of the leases under the terms of a CAPL-form Joint Operating Agreement and Operating Procedure; the latter provides for an obligation to give a ROFR notice in respect of any disposition of a party’s entire working interest in the joint lands.

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75 The date of the breach is the most common valuation date for damages assessment purposes. A. Irvin Schein described this as “a general rule of contract law,” which he notes has key exceptions, including specific performance, equitable damages, or damages where the plaintiff is unable to mitigate. A. Irvin Schein, “Why Hypothesis should not Replace History: Admissibility of Hindsight in Damage Claims”, 1997 J. Bus Valuation 62 at 63 [Schein “Why Hypothesis should not Replace History”].
On January 1, 2016, Party B entered into a series of transactions, the end result of which was that Party B’s entire interest in the joint lands was transferred to Party C. After a trial, the Court found that Party A’s preferential rights were breached, but declined to award specific performance on the basis that damages would be an adequate remedy, and because Party C, a bona fide purchaser, would be prejudiced as a result.

The trial concluded in January of 2018. The parties had led evidence through an agreed expert regarding the value of remaining reserves attributable to the joint lands, based on an effective date of September, 2017. In addition, each party retained its own expert to lead evidence on the measure and calculation of damages attributable to the breach.

Meanwhile, benchmark crude oil prices fluctuated heavily. On the date of the breach, the benchmark price of West Texas Intermediate crude oil (WTI) was slightly less than $30 USD a barrel. On the effective date of the reserves report, the benchmark WTI price was $49.64 USD. As at the conclusion of the trial, the benchmark WTI price was $64.73 USD.

Party A’s expert suggested that an adequate measure of damages would be the value of the asset less the exercise price that would have been spent on the acquisition. She calculated those losses by aggregating the net cash flows earned from the joint lands in each of 2016 and 2017 and dividing that number by Party B’s net interest. Then, she calculated the net present value of future revenue attributable to those lands using discount rates equivalent to those from the reserves report, and applying that discount rate as of the date of the trial.

Party B agreed that the damages should be the value of the asset less the exercise price. However, he ignored the evidence of net cash flows in 2016 and 2017 as “hindsight evidence”, which in his view ought not to be considered in calculating damages. Party B’s expert argued that under normal market conditions the net present value of future cash flows from an asset and its fair market value to an arm’s length purchaser should be equal. On that basis, he opined that the value of the disputed assets as at the date of breach and the exercise price were the same, and concluded that there were no damages.

In principle, the approaches of these experts are equally defensible; Party A’s expert assesses damages as at the date of the trial, while Party B assesses them as at the date of breach. Either expert arguably provides the Court with a ready-made inference on damages depending on the outcome of the legal question of when damages should be assessed. However, their approaches will lead to vastly different damages outcomes, and raise a further issue when they are compared to the terms of the original bargain between the parties.

Recall that at the outset Party A and Party B did not agree to any special allocation of market risk; under the Joint Operating Agreement, each party bears the risk and reaps the benefits of market cycles in accordance with its working interest. Arguably, this is part of the implied

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76 Naturally, with hindsight, the parties’ positions would be reversed in a falling, rather than rising, market.
understanding behind every such contract: the parties always know that the price of commodities is cyclical and that the value of their working interests will inevitably fluctuate over time.

Both experts based their damages on the same notional calculation of the difference between the value of the joint lands and the exercise price that Party A would have had to pay if it had exercised its preferential right. This principle is defensible, and (it is submitted) correct in law with respect to the calculation of expectation damages in contract with respect to a right to purchase property. However, despite that commonality of approach, the two valuators will inevitably reach vastly divergent conclusions on the resulting damages calculation. In legal terms, we might crudely characterize the two damages calculations as representing (on the one hand) damages in lieu of specific performance, and (on the other) expectation damages in contract measured at the date of the breach. As is set out in our analysis above, the availability of damages “in lieu” of specific performance depends on a finding that specific performance would be available and that damages are inadequate; they are not automatically available simply because the complaint involves a preferential right.

In either case, the objective of the analysis should be to choose a measure of damages that most accurately captures the expectations of the contracting parties at formation, given the overarching context of a fluctuating commodities market. In our view, this principle should apply irrespective of whether damages are based on the expectation interest in contract or awarded in lieu of specific performance. As Lambert J.A. stressed in Andsell v Crowther “there is no distinction between damages at common law and so-called ‘equitable damages’, [and] … no fixed rule as to the date as to when damages ought to be assessed.”

C. Date of Breach or Date of Trial: A False Dilemma?

An accurate understanding of the expectations of the parties necessarily requires a principled allocation of risk as between parties. There is no reason why a technical choice between date of breach and date of trial should override this primary concern. The goal is to put the innocent party in the same position as it would have been if the contract had been performed; this goal cannot be met where the Courts prefer form over function and mechanically set dates for assessment of damages, without regard to the true nature of the bargain struck between the parties.

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77 A holder of a preferential right to purchase real property is conceptually analogous to a frustrated purchaser under a contract for sale of land that cannot be completed due to the vendor’s breach of contract. In such cases, the measure of damages has traditionally been (where specific performance is not available) the difference between the contract price and the market value of the property. See eg Richter v. Simpson (1982), 37 B.C.L.R. 325 (B.C. S.C.); see also Lalani v Wenn Estate, 2011 BCCA 499 at para 24; and Peterson v 446690 BC Ltd. (Seymour Arm Hotel & Restaurant), 2017 BCCA 394 at paras 40-41.

78 The damages calculated by Party A are analogous to the damages awarded by Brooker J. in Apex Corporation v Ceco Developments Ltd. 2005 ABQB 656 (varied on other grounds, 2008 ABCA 125, leave to appeal ref’d [2008] SCCA No 264). Apex involved the breach by Apex of a preferential purchase right in favour of Ceco Developments.

79 See, for instance, Barran v. Assef, 1990 CanLII 5501, aff’d 1991 ABCA 251 (AB QB)

80 Semelhago, supra note 2 at paras 11 and 21-22

In that regard, the seminal case of Hadley v Baxendale\textsuperscript{82} is apposite: that case involved the failure to repair and deliver a broken crankshaft to the plaintiff for use in a steam-powered mill. In declining to award damages for lost profits from sales of product, the Court of the Exchequer (per Alderson B.) famously reasoned that damages in breach of contract:

... should be such as may fairly and reasonably be considered either arising naturally, i.e., according to the usual course of things, from such breach of contract itself, or such as may reasonably be supposed to have been in the contemplation of both parties, at the time they made the contract, as the probable result of the breach of it.\textsuperscript{83}

Arguably, shifting benchmark prices are part of the “usual course of things” in the oil and gas industry; however, they are not the “probable result of the breach” of a joint operating agreement over land. What results from the breach is the loss of a right to win and work minerals from a portion of the joint lands, not the right to benefit from a significant increase in benchmark pricing, particularly when Party A could reap the benefits of that same increase by making any alternate investment in any petroleum producing asset, or even by purchasing and selling physically-settled futures contracts. Indeed, if prices had fallen during the damages assessment period, Party A would have had no incentive to pursue this claim at all. Following the reasoning in Hadley v Baxendale, those damages are arguably not proximate to the breach.

The damages model proposed by Party A’s expert has two components: 1) the non-risk adjusted cash flows from the joint lands, based on evidence available to the expert in the form (presumably) of invoices and cash flow statements produced by the parties in the litigation; and 2) a risk-adjusted projected return on the properties as of the trial date, based on reserves reporting from 2017 and discounted cash flows from the properties in perpetuity. The date of assessment of damages is the date of trial; Party A gets the benefit of the real cash flows up to the trial date (on an undiscounted basis) but thereafter must be satisfied with damages in perpetuity on the basis of the discounted cash flow. This theory of damages has a certain intuitive appeal; after all, a date-of-breach assessment will require the cash flows to be risk-adjusted going backward to account for contingencies that materialized in real time when that money was earned. This approach focuses on real evidence and to the extent possible avoids speculation as to what the risk-adjusted cash flows from the properties would have been at various points in time.

However, Party A’s approach to calculating damages has at least two serious problems.

The first is that Party A’s approach transfers all of the market risk associated with holding the joint lands to Party B for so long as the litigation lasts. As Irving Schein puts it, such a damages model creates a perverse incentive for a plaintiff to “conduct his affairs so as to maximize his damages.”\textsuperscript{84} A plaintiff who commences litigation in a down market will see no benefit to fixing an early and prompt trial date; it will be far preferable to delay the start of trial until benchmark

\textsuperscript{82} Hadley v Baxendale, (1854) 156 ER 145.
\textsuperscript{83} Ibid. at p. 152.
\textsuperscript{84} Schein, “Why Hypothesis Should not Replace History”, supra note 75 at p. 67.
prices recover and create the optimal time for damages assessment. After all, the plaintiff’s “loss” in this case is in large part a function of fluctuations in market conditions that are beyond either party’s control.

The second is that in effect this theory awards damages to Party A that at the time of the breach would under any analysis be far too remote: the damages flowing from the breach are in principle the lost opportunity to obtain and sell petroleum and byproducts from the joint lands. Party A’s damages include damages that flow from an unrelated event that no party could have predicted at contract formation: an increase in benchmark oil prices of over 100% between the date of the breach and the date of the trial.

Meanwhile, the approach of Party B’s expert stresses that the date of assessment is the date of the breach and focuses on what damages flow directly from that breach. The value of what was lost was, *when the breach occurred*, the discounted cash flow attributable to the portion of the Joint Lands that was subject to the preferential right, based on what was known to the parties at that time, and (importantly) based on market prices as of those dates. All of these factors were assessed by and known to the purchaser and the vendor at the time of the transaction based on current strip pricing and a discounted cash flow projection based on remaining reserves. The purchase price for the lands thus accounted for future commodities price risk in a manner that was foreseeable to the parties at the time of the breach.

However, Party B’s theory suffers from its own conceptual flaws.

First, it ignores the evidence of the real performance of the joint lands since the date of the breach and substitutes for that a party’s speculation about the risks of a volatile market which though reasonable at the time is in hindsight uninformed. Parties to these contracts know that their working interests will fluctuate in value from time to time on the basis of changing market conditions. Indeed, the going-concern value of Parties A and B themselves will undergo the same constant shifts, and arguably the parties each know from experience that a valuation of a property at a fixed point in time does not lead to a reliable result at any other point in time. In addition, accounting for the effects of commodity price fluctuations creates its own challenges in the business valuation context.

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85 Or, as aptly put by McKenzie J. in *A.V.G. Management Science Ltd. v. Barwell Developments Ltd.*, 69 DLR (3d) 741 at 753: “In inflationary times I would hesitate in using a trial date or judgment date as the date of reckoning for damages except in such exceptional circumstances as were found by Megarry J., because this might encourage plaintiffs to be laggard in bringing cases on to trial in the hope that a later assessment would be more likely to produce a higher award because prices seem to show a stronger inclination to go up than to go down.” (emphasis added)

86 As Jonathan Levy points out, where parties may elect specific performance or damages up until the trial of the action, the result is a “supercompensation” of the plaintiff for the same reason: the plaintiff can obtain the benefit of the returns of a rising market while bearing no risk of the market falling. Levy, “Against Supercompensation”, supra note 73 at 561.

87 Volatility in earnings at commodity firms can lead to errors in valuation both because the commodity price cycle is ignored, or at times because analysts “fixate on it:” Aswath Damodaran, *The Dark Side of Valuation*, (New Jersey: FT Press, 2010) at 419 [*Damodaran, The Dark Side of Valuation*].
More fundamentally, Party B's approach ignores the specific features that make oil and gas properties individually desirable in the first place. After all, if the value of the joint lands were always equal to the discounted cash flows attributable to current reserves at current strip prices, no party would ever purchase oil and gas assets. It would be better to simply earn the risk-free return on capital by purchasing government bonds.

Second, Party B's theory of damages creates its own perverse incentives. Under this theory, damages for breach of a preferential purchase right will almost always result in nominal damages, which could result in cases of “efficient breach” where a purchaser desires to acquire lands that are subject to that preferential right as part of a larger package of assets.

**D. Towards a “Hybrid” Approach Damages (Using Limited Hindsight)**

The differences between these damages assessments flow in large part from two factors: one is the selection of a date of assessment as of either the breach or the date of trial. The second is the manner in which evidence of past performance is analyzed and dealt with, either as admissible evidence of Party A’s loss, or as “hindsight evidence” arising after the date of breach and not properly part of the valuation exercise. In both cases, the common law and the principles applicable to business valuation can admit of a third way forward that addresses the evidence of actual performance (but assumes that the revenues were not and could not have been earned risk-free) considers hindsight evidence appropriately, and fixes damages in a way that approximates the equal allocation of market risk as between the parties at contract formation. That approach, which the authors recommend, is to measure the loss based on actual cash flows up to the date of trial, risk-adjusted to reflect that revenues are never earned risk-free, and then calculate the net present value of remaining cash flow on the basis of the most recent data available as at the date of trial.

The jurisprudence and commentary regarding the date of assessment of damages may be kindly described as “variable.” Numerous sources suggest that the gold standard is to assess damages based on information known and available at the date of the contractual breach. Other authorities suggest that where damages are awarded in lieu of specific performance, damages should be based on a date of trial assessment. However, some business valuators take a more balanced approach, with Richard M. Wise noting that “in business valuation, hindsight is inadmissible,” but observing that the exercise of quantifying damages on the basis of lost profits is different and more complex. He goes on to suggest that there are four possible dates that a Court might choose to assess damages: the date of the contract, the date

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88 Other factors would require consideration, such as the application of pre-judgment interest to cash flows earned prior to the date of trial.


90 As Sopinka J. commented in *Semelhago*, supra note 2 at para 14: “it would not be appropriate to insist on applying the date of breach as the assessment date when the purchaser of a unique asset has a legitimate claim to specific performance and elects to take damages instead.”

of the breach, the date of the trial, and a date between the date of breach and the date of trial; which date is appropriate in a given case depends on the particular facts. At that point, Wise views the exercise as one of identifying the damages that are “proximately caused” by the breach and which may be proven on the evidence with “reasonable certainty.” Wise recognizes that the issue of “proximate cause” requires a valuator to exclude from the analysis the unconnected or “external” factors that may contribute to a loss of profits calculation. For instance, he reasons, “an economic downturn, seasonal or cyclical fluctuations, effects of a recession” and similar factors can result in a loss that should not, in principle, form part of a plaintiff’s compensatory damages award.

The notion that courts may select a date of assessment based on the particular facts of each case is borne out by the case law. In Andsell, Lambert J.A. stressed that there is “no fixed rule” respecting when damages must be assessed, including where they are assessed in lieu of specific performance. In Semelhago, Sopinka J. stressed that the common law in this regard is “flexible”. For the purposes of this analysis, it may be best to focus on what principles animate the choice of a date of assessment. Normally, where the date of trial is selected, it is to reach a damages award that (in cases of damages in lieu of specific performance) gives “as nearly as may be what specific performance would have given,” or (in cases of compensatory damages) because that date is “appropriate in the circumstances” and will avoid an “injustice.”

Conversely, the selection of the date of breach for damages assessment reflects the familiar principle enunciated by Sopinka J. in Semelhago as follows: “if the innocent purchaser is compensated on the basis of the value of the goods as of the date of breach, the purchaser can turn around and purchase identical or equivalent goods. The purchaser is therefore placed in the same financial situation as if the contract had been kept.” Date of breach assessment in compensatory damages cases is thus connected to the duty of a plaintiff (and the notional ability) to mitigate its loss.

In reality, the dichotomy between a date of assessment as of the breach and an assessment as of the date of trial is somewhat artificial. As Wise points out, there is an important difference between the valuation of a business at a point in time, and the valuation of a claim for lost profits, when the valuators (and the Court) have access to real evidence of the profits that the plaintiff would have obtained had the contract been performed. The exercise, then, is to ensure that the claim for lost profits does not include external events that are not proximate to the plaintiff’s breach of contract while preserving the principle that damages should compensate the plaintiff for its loss. As a further policy consideration, the ideal approach would avoid encouraging “efficient breach” by adopting a model that is guaranteed to result in nil damages (as with the Party B example above).

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92 Ibid. at 368.
93 Ibid. at 364.
94 Ibid. at 378.
95 Andsell, supra note 81 at para 27.
96 Semelhago, supra note 2 at paras 14 and 17.
97 Semelhago, supra note 2 at para 16; Wroth v. Tyler, [1974] 1 Ch. 30.
98 Semelhago, supra note 2 at para 12, citing Lord Wilberforce’s reasons in Johnson v Agnew, supra note 74.
99 Semelhago, supra note 2 at para 13.
100 As Wise points out, compensatory damages should not include the effects of economic forces external to the relationship between the parties, and “Adjustments must be made so that the effect of external causes will not be included in the claim for recovery of lost profits.” Wise, “Quantification”, supra note 91 at 378.
The ideal approach compensates the plaintiff for the expectation damage that flows from the breach but (as Wise puts it) adjusts that damage to account for the fact that an increase (or a decrease) in the value of the underlying asset occurring after the breach should not form part of the plaintiff’s loss. The approach outlined above approximates these objectives, though admittedly not in an exact or granular sense.101

Under this suggested approach, Party A’s loss (a loss of an opportunity to win and work a portion of the joint lands) is notionally measured at the date of the breach, in that the plaintiff is presumed not to have been able to earn a risk free return on that production from that point forward. However, the discounted cash flow rate is applied in each month to the actual returns earned from the joint lands, thus ensuring that the damages award accounts properly for the evidence of what actually occurred subsequent to the breach while avoiding the creation of perverse incentives on the part of the plaintiff to defer the trial of the action until prices are more favourable. Future cash flow projections can then be based on the net present value of the joint lands under a discounted cash flow analysis based on current reserves. The resulting damages award should in principle be akin to the damages in lieu of specific performance described by Megarry J. in Wroth v Tyler.102

In short, the plaintiff gets the value of the land less the cost to acquire it, but in every month the risk of price fluctuations in the underlying commodity is accounted for by the application of a discount rate. In every claim month, the plaintiff receives the cash it would have earned, but also assumes the risk of operating the land as of that time. The disadvantage of this approach is its complexity; its advantage is the extent to which it attempts to approximate, as closely as possible, what would actually have happened if the contract had been performed. Perhaps another disadvantage, admittedly, is its novelty; for obvious reasons it is not customary to apply a discount to past losses. However, this approach, the authors submit, strikes the appropriate balance between an approach that encourages efficient breach and one which incentivizes a plaintiff to choose a trial date that maximizes its damages.

PART III.: The Question of Mitigation

A. The Supreme Court Decision in Southcott

Intertwined with the questions of appropriate remedy (specific performance or damages) and date of assessment (date of breach, trial, or otherwise), is the issue of mitigation.

The normal rule in damages for breach of contract is that a plaintiff cannot idly sit by and let its loss accumulate. Instead, the plaintiff has a positive obligation to take all reasonable steps to avoid or limit its loss. If a plaintiff fails to mitigate its loss, it will not be entitled to damages that could have been avoided through taking reasonable mitigation steps.103

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101 Estimates of lost profits in a damages calculation are well recognized to be approximate, and Courts seldom require an exact accounting: “If the fact of damage is established, the law does not require the amount of damage to be proven with mathematical certainty; damages may be recovered if there is evidence upon which a reasonable assessment of the loss can be made”: Murano v. Bank of Montreal, 1995 CanLII 7410 (ONSC), per Adams J., citing S.C. Fed. Savings Bank v. Thornton-Crosby, 399 S.E. 2d 8 (1990), at p. 11.
102 Wroth v Tyler, [1974] Ch 30; [1973] 1 All ER 897 at 898.
103 Strategic Acquisition, supra note 32 at para. 61.
There is some friction in the interaction between claims (particularly unsuccessful claims) for specific performance and the duty to mitigate. The concepts of specific performance and mitigation do not fit neatly together, and the steps a plaintiff takes (or does not take) relating to mitigation can fundamentally impact the remedy—both as it pertains to entitlement to specific performance and, conversely, if equitable relief is not appropriate, the amount of damages.

The starting point for any discussion on mitigation in the context of a claim for specific performance is the decision in Southcott, where Karakatsanis J. considered whether a single-purpose corporation (created without assets, solely to purchase and develop real estate) was “excused from mitigating its losses when the vendor breaches the agreement of purchase and sale, and particularly when it has promptly brought an action for specific performance.”

Karakatsanis J., referencing the previous Supreme Court of Canada decision in Asamera, set out the following test for considering whether a plaintiff is required to mitigate its loss when pursuing a claim for specific performance:

This Court thus recognized that there may be situations in which a plaintiff's inaction is justifiable notwithstanding its failure to obtain an order for specific performance where circumstances reveal "some fair, real, and substantial justification" for his claim or "a substantial and legitimate interest" in seeking specific performance. This does not mean that a plaintiff with such a claim should not attempt to mitigate; rather it recognizes that such a claim for specific performance informs what a reasonable behaviour is for the plaintiff in mitigation.

The policy rationale for Karakatsanis J.’s “fair, real, and substantial justification” or “a substantial and legitimate interest” standard is clear: allowing a plaintiff to “insulate” itself from its obligation to mitigate its losses simply by asserting a claim for specific performance would “…cast upon the defendant all the risk of aggravated loss by reason of delay in bringing the issue to trial.”

In Southcott, Karakatsanis J. ultimately determined that the plaintiff did not have a “fair, real, and substantial justification” or a “substantial and legitimate interest” in specific performance, because the plaintiff was engaged in a” commercial transaction for the purpose of making a profit” and that the "property's particular qualities were only of value due to their ability to further profitability.”

Karakatsanis J. rejected the argument that subsequent acquisitions by the plaintiff’s parent company should not count towards mitigation because these transactions “were collateral, independent transactions that did not arise out of the consequences of the breach”. Karakatsanis J. accepted the finding that these purchases “would have been made in any event”, but noted that these acquisitions were “evidence that other suitable development lands were available and the decision not to purchase them in Southcott's name was based on other considerations.”

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104 Southcott, supra note 9 at para. 1.
105 Ibid. at para. 36.
106 Baud Corp., N.V. v. Brook, 1978 CarswellAlta 268 at para. 68 (SCC)
107 Southcott, supra note 9 at para. 41.
Karakatsanis J. confirmed the breach of contract but awarded nominal damages ($1.00).

Southcott teaches us that a plaintiff who fails to secure an award of specific performance may nonetheless be excused from an obligation to mitigate damages, if the plaintiff's decision not to mitigate was reasonable in the circumstances. Whether the plaintiff's inaction was reasonable depends on whether there is a "some fair, real, and substantial justification" for the claim or "a substantial and legitimate interest" in specific performance. In other words, a plaintiff need not succeed in its claim for specific performance to avoid mitigation obligations, but at minimum, it must advance a credible and good faith claim for specific performance.

Pursuing a claim for specific performance does not, by itself, relieve a plaintiff from its duty to mitigate. The Alberta Court of Appeal recently rejected, as inaccurate and erroneous, the reasoning that: "filing a claim for specific performance is inconsistent with the act of acquiring a substitute property and that [the plaintiff], acting reasonably, would not pursue specific performance and mitigate its loss at the same time."\(^{108}\)

**B. To “Litigate or Mitigate”**

A prospective plaintiff therefore has a difficult decision to make at the outset of litigation regarding mitigation. As Professor Moore notes: "A party who pursues a claim for specific performance faces greater uncertainty and more serious risk than a party who chooses to mitigate his/her losses and seek damages."\(^{109}\) For example, should the plaintiff commence and pursue litigation without taking steps to acquire another, similar interest or asset? This course of action may bolster the plaintiff's claims relating to uniqueness and the inability of damages to compensate for the loss – thereby enhancing the chance of being awarded specific performance. However, if the plaintiff fails to satisfy the court that it is entitled to specific performance or, more accurately, that it had a "fair, real, and substantial justification" or a "substantial and legitimate" interest in specific performance, it risks having the damages award reduced, or eliminated, through a failure to mitigate.

In *Fuhr Estate v. Husky Oil Marketing Co.*, 2010 ABQB 495 (ABQB), Manderscheid J. stated that "the question of whether it is reasonable to "litigate rather than mitigate" is dependent upon the particular circumstances."\(^{110}\) The reasonableness of a plaintiff's actions (or inaction) pertaining to mitigation may be a fact based inquiry dependent on the circumstances; however, as noted in *Southcott*, the "... determination of what is reasonable conduct must be read in light of Semelhago."\(^{111}\) This suggests that the same considerations discussed in detail above relating to specific performance and date of assessment (evidence of uniqueness; business rationale; "early and repeated" notice of claim; land titles registrations; prosecuting the claim expeditiously; etc.) apply equally in determining the reasonableness of a plaintiff's decision not to mitigate.

\(^{108}\) Strategic Acquisition, supra note 32 at para. 64 (ABCA)
\(^{109}\) Moore, “A Tale of Two Remedies” supra note 15.
\(^{110}\) Fuhr Estate, supra note 28 at para. 69 (ABQB)
\(^{111}\) Southcott, supra note 9 at para. 37.
In short, the same (or at least very similar) considerations inform inquiries into whether to grant specific performance and whether a decision not to mitigate was reasonable in the circumstances. They are, in many respects, two sides of the same coin. That said, there are some important practical and strategic differences between the two inquiries.

First, as noted above it is possible to have “a fair, real, and substantial justification” for equitable relief or “a substantial and legitimate interest” in specific performance without actually being awarded specific performance. The two issues are not mutually exclusive, and failing in a claim for specific performance does not necessarily mean that a plaintiff will be required to mitigate its loss.

Second, on a practical level, the standard to meet, or the onus, are different when claiming specific performance (or damages in lieu of specific performance) compared to assertions regarding mitigation. At trial, the plaintiff has the onus to establish that damages would be an inadequate remedy in order to be entitled to specific performance. The onus is reversed when it comes to an assertion that the plaintiff failed to mitigate its loss.

In Southcott, Karakatsanis J. stated that when “it is alleged that the plaintiff has failed to mitigate, the burden of proof is on the defendant, who needs to prove both that the plaintiff has failed to make reasonable efforts to mitigate and that mitigation was possible.” While a finding that a plaintiff is not entitled to specific performance will obviously impact a determination as to the reasonableness of mitigation efforts, the onus remains with the defendant to prove that alternative investments, if any, that the plaintiff made, or could have made, should be considered as a deduction from a damages award.

Third, there are also technical and pleading requirements that arguably need to be met relating to mitigation. There is some authority for the proposition that mitigation must be specifically pled if a defendant wants to advance a mitigation defense. The better view, however, is that provided the defendant puts a plaintiff on notice that mitigation is a live issue (at examinations, or at some point during the course of litigation in advance of trial) and that the plaintiff is not surprised or ill-prepared to rebut a mitigation defense, then the court will accept evidence and argument related to mitigation. As such, while pleading mitigation is clearly the preferred practice, failing to do so is likely not fatal if mitigation has been canvassed as part of litigation.

C. Strategic & Practical Considerations re Mitigation

From a strategic perspective, it is important to consider what evidence is required to support or refute a mitigation argument. From the plaintiff’s perspective, much of the evidentiary foundation to support the reasonableness of a decision not to mitigate will be identical evidence tendered in support of a specific performance claim (uniqueness of interest; business rationale; subjective

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113 Southcott, supra note 9 at para. 24.


115 Petersen v Bannon, 1993 CarswellBC 289 (BCCA); Briglio v Faulkner, 1996 CarswellBC 1818 at para 143 (BC Sup Ct)
views on value; how the property / interest relates to wider development plans or asset mix; etc.).

In addition, a plaintiff should consider leading evidence regarding:

- what other similar opportunities were available;
- the plaintiff’s capacity, financial and otherwise, to pursue other opportunities;
- what other opportunities the plaintiff actually pursued, and what cash flows were generated by those opportunities;
- what the plaintiff did with the funds or resources that it intended to dedicate to the transaction or acquisition;
- whether other opportunities pursued by the plaintiff differed materially from the subject matter of litigation; and
- whether other opportunities pursued by the plaintiff would have been pursued in any event, such that they should not be considered to have related to the mitigation of any particular loss.

Conversely, a defendant should request information relating to the above issues as part of document discovery (and canvass other relevant information that may be in the public domain through regulatory or securities filings), and explore these matters as part of examinations. In addition, a defendant may want to tender its own evidence relating to mitigation opportunities, particularly as it relates to industry transaction trends or the health of a particular market or region.

On cross-examination, a defendant should seek to discover a plaintiff’s decision making process around pursuing (or not pursuing) other opportunities. Questions relating to how and when a plaintiff deployed capital, and whether or not the plaintiff had residual funds sitting idle waiting for investment opportunities are potentially relevant to the question of mitigation. For example, if a plaintiff is seeking specific performance relating to a ROFR that would have cost $10M to exercise, a defendant should explore what the plaintiff did with the $10M that was not dedicated to the ROFR property. If a plaintiff invested these funds in other transactions, or similar initiatives, this may (depending on the circumstances) provide a basis to assert that the plaintiff did, in fact, mitigate its loss.

The above evidence will presumably come primarily from fact witnesses, as opposed to expert witnesses. There is, however, a role for expert witnesses to play relating to mitigation. The expert may have specialized knowledge of a particular market or industry (oil and gas) that would allow her to speak to the reasonableness of mitigation efforts. A valuation expert may also, depending on the circumstances, come to an informed and independent conclusion on how to consider mitigation, if at all, in assessing damages. In other cases, the valuation expert may be directed by counsel to make assumptions about mitigation. If this is the case, it may be of value to explore the reasonableness of these assumptions on cross-examination.

**D. Multi-party Preferential Rights & “Loss of Chance” Doctrine**

A final issue, which does not relate to mitigation, but which can impact damages in a potentially significant way, are matters relating to “loss of chance” and theoretical contingencies.
In a breach of contract claim relating to the failure to issue a ROFR notice, there may be an issue as to whether the plaintiff would have exercised its ROFR rights, if the ROFR notice had been issued. If so, it may be necessary to apply a contingency or deduction to account for the possibility that plaintiff may not have exercised the ROFR right, if given the opportunity do so.

In Strategic Acquisition, the Alberta Court of Appeal considered, among other things, the appropriateness of the trial judge’s decision to reduce the plaintiff’s damages award by 50% to reflect the possibility that the plaintiff may not have exercised the ROFR, if given the opportunity to do so. In the trial decision, Mahoney J. had relied on the three part test for considering lost opportunity damages as outlined in IFP Technologies (Canada) v Encana Midstream and Marketing, (ABQB):

If the plaintiff is able to prove that the defendant’s conduct prevented the enjoyment of an opportunity - beyond the de minimus range - to gain a benefit or avoid a detriment, the plaintiff may be granted relief, discounted to reflect the likelihood of the opportunity being realized.

[...] Thus, assessing damages for a lost opportunity involves the following steps: (1) deciding whether the claim for lost opportunity is real, as opposed to fanciful; (2) assessing the value of the opportunity if it had been realized; and (3) assessing the likelihood the opportunity would have been realized and discounting the damages to reflect the possibility that the opportunity would not have been realized in any event.

The Court of Appeal ultimately agreed with the discount to the amount of damages applied by the trial judge to take account of the likelihood that Strategic would have exercised the ROFR.

It was open to the trial judge to assess the likelihood of Strategic exercising the ROFR. The evidence on the point was thin, but as the trial judge pointed out, difficulty in conducting an assessment does not deprive the plaintiff of damages. Although we may not have assessed the likelihood at 50%, we decline to interfere with the assessment of the trial judge. Accordingly, Strategic’s damages, previously assessed as $1.3 million at the date of breach, will be discounted by 50%, to $650,000.

The “loss of chance” doctrine has also been applied to circumstances involving acts or exercises of discretion involving third parties. Professor Waddams notes:

116 Strategic Acquisition, supra note 32 at paras. 65 – 81.
117 Ibid. at paras. 224 – 230 (ABQB). The 2016 ABQB 681 decision was overturned on appeal (2017 ABCA 250) for other reasons. The Court of Appeal agreed with the trial decision as it pertains to loss of chance.
118 Ibid. at para. 226.
119 Ibid. at para. 80.
The fact that the chance of loss for which the Plaintiff seeks compensation depends on the exercise of choice by a third party does not prevent the valuation of the chance and the award of respect of it. 120

In Multi-Malls Inc v Tex-Mall Properties Ltd, 108 DLR (3d) 399 (Ont. Sup. Ct. Jus.) the plaintiff’s damages hinged on the chance that a municipal board would have issued a zoning permit. Notwithstanding “continuing uncertainty of success in securing a Board approval for rezoning” at the time of breach, the court awarded damages on the basis that: “the chance of a rezoning was not better than one in five or 20%, and that chance was destroyed by breach of contract [...]”121

In Michaud v PMM Assurance & Services Inc., 2005 NBCA 66 (NBCA), Daigle J. considered the question of how to assess damages: “when the loss sustained at the time of trial is the loss of a chance … to avoid a future financial loss that might or might not arise.” Daigle J. held that the plaintiff’s loss (which related to misrepresentation relating to an investment guarantee) was compensable but that the trial judge erred in awarding the full value of the guarantee when its value was contingent on future uncertain events. Instead, Justice Daigle determined that the proper approach was a loss of chance analysis to account for contingencies:

… contingent damages always depend on an element of chance, and it is precisely this element which must be assessed based on the likelihood that the future damages will occur. This type of assessment makes it possible to quantify the current value of the lost chance at the time of the trial. Thus, the degree of likelihood of the future event serves as the basis for assessing the lost chance and must be reflected, along with the other relevant factors, in the calculation of the damages awarded. 122

In a matter where a plaintiff commenced litigation immediately, and filed caveats and other land titles registrations, prior to the transaction closing or shortly thereafter, there will likely be little doubt that the plaintiff would have exercised the right. As such, there would be no basis to make a deduction from a damages award.123

The “loss of chance” doctrine is more likely to arise in situations involving multi-party preferential rights. For instance, assume a situation where Party A holds a 50% interest in lands with Party B (25%) and Party C (25%). The relevant agreements contains a ROFR which, if exercised by both counterparties, is allocated on a pro rata basis. Party A relies on a ROFR exemption when it sells its interest to a third party. Party A does not issue ROFR notices to Party B and Party C. Party B sues Party A for specific performance or, in the alternative, damages. Party C does not sue Party A. If Party B is successful in litigation, is Party B entitled to Party A’s entire 50% share, or only Party A’s 25% share. The answer arguably depends on the theoretical contingency of what Party C would have done if Party A had issued ROFR notices.

121 Multi-Malls Inc v Tex-Mall Properties Ltd, 108 DLR (3d) 399 (WL) (Ont Sup Ct)
123 This may not always be the case. See, for example, Strategic Acquisition, supra note 32.
Working from the premise that a plaintiff bears the onus in this action to “prove its damages on a reasonable preponderance of credible evidence”, Party A in the above case will likely argue that in order to receive the benefit of anything more than its pro rata share of applicable ROFR rights, Party B must prove (as it must with all components of its damages claim) that Party C would not have exercised its ROFR rights.

The answer and damages assessment will necessarily depend on the evidence, if any, of Party C’s intentions, and the wider circumstances pertaining to the ROFR exercise. Absent any evidence on point, Party A will likely argue that, at minimum, Party B should only be allocated 50% of Party C’s share (based on the assertion that all else being equal, there was as good a chance as not that Party C would have exercised the ROFR right, if given the opportunity to do so).

CONCLUSION

Fluctuations in commodity prices are known to influence value and profitability of participants in commodity markets, such as the energy industry. As Aswath Damoradan notes, energy market participants are generally “price takers”; they are dependent, at least in part, on the price of a commodity for both earnings and value. That is more than a fact of life; it is a peremptory reality with which market participants must constantly contend, and on which their very existence and (sometimes) solvency depends. Put another way, the dawn of every day brings with it a host of unknowns for the energy market, and with that comes a new set of market and price risks that industry participants must grapple with.

This is the reason that the date of valuation of damages can so often result in wildly different estimates when the damages are based on the fluctuating value of a commodity-producing asset. It is admittedly intuitively appealing to merely look backward through time and say “in hindsight, the markets improved over time, and so we needn’t account for the risk of the markets.” However, at least in certain circumstances, this approach is wrong both conceptually and in law. It results (irrespective of the measure of damages) in what Levy calls “supercompensation” by assuming, wrongly, that transactional costs in the past were entered into “costlessly” and with perfect efficiency. The absurdity of this result is illustrated by the perverse incentive that it creates: a litigant who claims specific performance with respect to land (but reserves the right to elect damages later) will simply stand by and allow the current owner of the asset to exploit that asset and generate cash flow, knowing that by doing so it has created a perfectly efficient and risk-free transaction for itself. If commodity prices rise, the plaintiff participates in that increase by taking damages valued as at the date of trial. Even if they fall, the plaintiff merely demands specific performance and then also claims as restitution the non-discounted cash flows earned by the owner in a down market.

Damages in such a case come nowhere close to approximating contractual performance. If the contract had been performed, the plaintiff would (like every other market participant) have been in the position of a “price taker”, subject to the whims of a rising and falling market—and its valuation from time to time would also have depended in part on the price at which it was able to

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124 Aswath Damodaran, *The Dark Side of Valuation*, supra note 87 at 418
125 Levy, “Against Supercompensation”, *supra* note 73 at p. 562.
sell its products, which would never have been knowable in advance. Therefore, an assessment of damages that calculates and adjusts for that risk (even if that calculation is necessarily approximate) is fair, allocates market risk appropriately, and is consistent with and gives effect to the basic premise of the law of contract damages that those losses which do not flow from the breach may not be recovered.

Mitigation of damages is an issue that is inextricably linked to the measure of damages in such cases. After all, one reason for valuing damages as at the date of breach is to account for the fact that a plaintiff can (and usually must) mitigate its losses beginning on that date. Where the loss is the inability to participate in a rising commodity market, mitigation arguments become that much more trenchant: after all, one need not own any particular oil and gas asset in order to profit from increases in WTI prices. Indeed, one need not own any oil and gas asset at all; the prerequisite is not ownership of an asset, but available cash to invest in future returns. This is perhaps the main difficulty with the holding in *Semelhago* that specific performance is conditioned on damages being an insufficient remedy; where the asset produces a fungible commodity, arguably damages may sufficiently compensate for any loss, including efficiencies generated by ownership of adjacent lands or infrastructure. All of these things merely lessen the transactional cost and the risk of participation in the market.

The solution, then, is a principled approach to specific performance, damages, and mitigation, which recognizes the risks inherent in the marketplace, the fungibility of commodities, and the ready availability of substitute investments which will have (to the extent that losses depend on a fluctuating market) identical characteristics and risk profiles. The underlying principles should be to fairly allocate risk, avoid overcompensation of plaintiffs based on risk-free returns on investment earned in the past, and adhering to the basic principles of mitigation set out in *Asamera*, which recognize that mitigation can and must occur when the loss is crystallized and that losses which depend wholly on market fluctuations normally could have been (and often were) completely mitigated through the acquisition of alternate properties or investments.

The existing jurisprudence and legal and equitable principles informing remedies are, the authors submit, flexible enough to accomplish these objectives and align any decision with the allocation of risk built-in to the underlying contracts. In some cases, where a plaintiff has asserted a legitimate claim for specific performance “early and repeatedly”, reasonably decided not to mitigate, and prosecuted its case expeditiously, an award of specific performance or, alternatively, “damages in lieu of specific performance” (ie. assessing damages at the date of trial), may be entirely appropriate.

Conversely, if a plaintiff relies on a claim of specific performance to “insulate” itself from its duty to mitigate, or takes a “wait and see” approach to market fluctuations throughout prolonged litigation, specific performance should be denied. In such a case, an assessment as of the date of breach (or some date in time at which it became clear the plaintiff was not aggressively prosecuting the claim) is likely appropriate, with deductions for mitigation thereafter.

However, there will likely be situations falling between these two ends of the spectrum, where despite having a genuine interest in specific performance, and making a reasonable decision not to mitigate, there is a significant period of time (and a significant change in the underlying commodity price) between the date of breach and date of trial. In these cases, the authors
submit, it may be fair and reasonable to give the plaintiff the (partial) benefit of the passage of
time, but taking into account the actual increase in commodities price, but risking or discounting
the opportunity back to the date of breach. This hybrid approach, which is not without its
downsides (discussed above), arguably better allocates risk between the parties and aligns with
the original bargain struck in the contract. This approach also gives the court an additional tool
to achieve the ultimate objective in complex remedies cases --- which is to do justice between
the parties.