Cassels

Federal Court of Appeal “Frack” Tracks on Claim Construction, Double Patenting and Lump Sum Costs

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The Federal Court of Appeal (FCA) recently released its decision in *NCS Multistage Inc. v Kobold Corporation*, 2025 FCA 187, overturning in part the decision below. In the unanimous decision, Justice Walker, writing for the FCA, delved into principles of claim construction, double patenting and procedural fairness in the context of costs awards.

The parties, NCS and Kobold, are competitors in the oilfield services industry. The appeal concerned Canadian Patent No. 3,027,571 (the 571 Patent) owned by Kobold, which relates to a downhole tool having a shock-absorbing sleeve used in oil and gas extraction, namely fracking. At trial, the Federal Court (FC) found the four asserted claims of the 571 Patent to be valid and infringed by NCS, among many other findings relating to multiple patents (2023 FC 1486). NCS appealed the FC’s decision on various grounds, which by the hearing it had narrowed to claim construction and double patenting of the 571 Patent, as well as costs.

Claim Construction and Claim Differentiation

The appeal turned on whether the asserted claims of the 571 Patent encompass a downhole apparatus comprising an “annular barrier gap” (as construed by the trial judge), or if the claims encompass a downhole apparatus comprising both an “annular barrier gap” and “sealed annular barrier.” The trial judge construed independent claim 12 to not include the “sealed annular barrier,” a feature introduced in claim 13, which depends on claim 12. The FCA found this to be an error of law and a misapplication of the principle of claim differentiation, as an independent claim must be broader and include the subject matter of the narrower claims that depend on it. The FCA also noted that dependent claim limitations should not restrict the scope of independent claims, which functions as a guard against redundancy of claims. The FCA allowed NCS’s appeal on claim construction and freshly construed three of the asserted claims to include both the “annular barrier gap” and “sealed annular barrier.”

Double Patenting

Given the finding on claim construction, and appreciating that the issue of double patenting involves a comparison of the claims, the FCA held that the trial judge’s finding on obviousness double patenting of the

571 Patent, particularly the comparison of Kobold’s 830 Patent to the 571 Patent (a voluntary divisional of the 830 Patent), was necessarily flawed. The issue was remitted for re-determination by the trial judge using the FCA’s construction of the claims. In considering the issue, the FCA confirmed that the tests for obviousness and obviousness double patenting are different, with the latter focusing on whether the differences between the claims of the first and second patents constitute obvious steps to a person skilled in the art. The analysis requires identifying the inventive concept of each claim being compared and determining whether they are patentably distinct and is not limited to simply identifying overlap.

Lump Sum Costs

Lastly, the FCA found the $1,800,000 lump sum awarded to Kobold for costs to be procedurally unfair. The trial judge calculated this amount based on a statement from Kobold that its fees totaled over $4,000,000, and applied a percentage of 45% to arrive at the lump sum award, despite Kobold not requesting costs based on legal fees incurred at any percentage. The FCA found the costs award to be procedurally unfair because:

i. NCS was subjected to a liability of which it had no notice and no opportunity to respond since the form and amount of the award had not been requested by Kobold. The fact that NCS had requested its own costs using a range of percentage of fees incurred did not justify an award to Kobold on a different basis and in a significantly higher amount than Kobold requested.

ii. There was insufficient evidence of Kobold’s actual legal fees before the FC to enable it to determine whether the approximate $4,000,000 of legal fees claimed was reasonable in the context of the proceeding. The FC had Kobold’s statement that its legal fees totaled over $4,000,000, Kobold’s bill of costs, and the court docket, but Kobold provided no affidavit, explanation or summary of its actual legal fees or accounts and its reference to total fees was made solely in support of costs in accordance with Tariff B.

As such, the FCA reduced the costs award to the amount Kobold originally requested, i.e., costs calculated at the upper end of Column V of Tariff B, and remitted to the FC assessment of the appeal’s impact on the revised costs award.

NCS’ Costs of the Appeal

Despite the undivided success on appeal, the FCA awarded NCS costs at a 50% discounted rate because of NCS’ “successive and significant, late-stage abandonment of material issues from the appeal.”

Final Thoughts

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This decision highlights the strategic value of focusing an appeal on the strongest arguments. Although there were numerous issues raised at trial and the FC declared all asserted claims of five of NCS' patents to be invalid, NCS' appeal ultimately focused only on two narrow issues concerning Kobold's 571 Patent and succeeded on both. The decision also highlights the value of focusing appeals as early as possible, as by waiting until the last minute an appellant risks impacting the costs award of any successful appeal.

Also, although courts are known to possess broad discretion in determining the scale and quantum of costs, and costs appeals are therefore usually unsuccessful, this decision confirms that even a broad discretion has limits. Basic procedural fairness requires any court considering costs to ensure that all parties receive adequate notice and an opportunity to make meaningful submissions, and that the evidentiary record is sufficient to support the award.
