

Sanctions Trump Contracts: Canadian Court Interprets “Control” Under Russian Sanctions

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April 23, 2026

The Alberta Court of King’s Bench has released a landmark decision providing the most comprehensive judicial interpretation to date of the “deemed ownership” and control provisions under the *Special Economic Measures Act* (SEMA). In [RN Cardium Oil Inc. v. Loyal Energy \(Canada\) Operating Ltd](#), the Court summarily dismissed a \$6 million contractual claim after concluding that payment would contravene Canadian sanctions.

This decision is significant for Canadian companies because it confirms that sanctions compliance can override contractual rights and payment obligations, even where a counterparty is not expressly listed under Canada’s sanctions regulations.

Background

RN Cardium Oil Inc. (Cardium) is a British Columbia–based company and a wholly owned subsidiary of PJSC Rosneft Oil Company (Rosneft), a major Russian energy company. Cardium and Loyal Energy (Canada) Operating Ltd (Loyal) were parties to a joint venture development agreement (JVDA) for the production and sale of hydrocarbons, under which Cardium was entitled to receive 30% of the net revenues from jointly owned oil and gas wells.

Loyal ceased making payments in late 2022, asserting that payment was prohibited under the [Special Economic Measures \(Russia\) Regulations](#) (the Russia Regulations). Cardium commenced litigation in March 2025, alleging breach of contract and seeking compensatory and punitive damages.

The Court’s Decision

The Court accepted Loyal’s position that Cardium was subject to Canadian sanctions due to its indirect control by JSC Rosneftegaz (Rosneftegaz), a Schedule 1-listed entity and a significant shareholder of Rosneft.

Applicable Sanctions Framework

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Sections 3 and 5 of the Russia Regulations prohibit any person in Canada, and any Canadian outside Canada, from dealing in property that is owned, held, or controlled — directly or indirectly — by or on behalf of a person listed in Schedule 1, from entering into or facilitating transactions related to such property, from providing financial or other related services in respect of such property or for the benefit of a listed person, and from knowingly facilitating or assisting in any activity prohibited under the Regulations.

The Court confirmed that these prohibitions apply not only to property owned by a sanctioned person, but also to property controlled, directly or indirectly, by such a person.

Section 2.1 of [SEMA](#) provides that a person is considered to control an entity if they hold, directly or indirectly, 50% or more of the entity's shares or voting rights, if they are able — directly or indirectly — to change the composition or powers of the entity's board of directors, or if, having regard to all the circumstances, it is reasonable to conclude that they are able, directly or indirectly and through any means, to direct the entity's activities.

Ownership and Control Analysis

Cardium is a wholly owned subsidiary of Rosneft, which was listed on Schedule 3 of the Russia Regulations at the relevant time. Rosneft's controlling shareholder is Rosneftegaz, which is wholly owned by the Russian state and listed on Schedule 1. The Court therefore found that Cardium was indirectly controlled by a Schedule 1-listed person.

Applying the deemed ownership provisions in Section 2.1 of [SEMA](#), the Court concluded that Rosneftegaz exercised de facto control over Rosneft. Although Rosneftegaz held 40.4% of Rosneft's issued shares, voting realities meant it controlled nearly 58% of the votes actually cast at shareholder meetings. Large blocks of shares — held by Rosneft subsidiaries and by BP following its exit from Russia — did not participate in voting, further consolidating Rosneftegaz's control.

Governance considerations reinforced this conclusion. As of June 2023, five of Rosneft's eleven directors, including its CEO, were listed on Schedule 1. Relying on the *Interpretation Act*, the Court confirmed that multiple listed persons may be considered collectively when assessing control and found that listed individuals exercised day-to-day oversight of Rosneft and, by extension, Cardium.

The Court emphasized that Cardium could not insulate itself from sanctions merely by virtue of being incorporated in Canada.

Result

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Because Rosneftgaz controlled Rosneft and Rosneft in turn controlled Cardium, the Court held that Loyal was legally prohibited from making payments to Cardium, entering into or facilitating any transactions related to Cardium's property, providing financial or other services for Cardium's benefit — including JVDA-related accounting and operator deliverables — and from assisting in any activity prohibited under the Russia Regulations.

Accordingly, the Court dismissed Cardium's claim in its entirety and rejected its request that withheld funds be paid into court, finding no evidence of misuse and concluding that continued holding of the funds was consistent with sanctions compliance.

Takeaways

Formal listing status is not determinative under Canadian sanctions law, and entities not expressly named on sanctions schedules may nevertheless be captured. Indirect control — including through ownership structures, governance rights, and board composition — is a critical consideration. The decision also confirms that, where sanctions apply, withholding payment may be legally required, rather than merely permissible. Canadian businesses with exposure to complex ownership structures — particularly involving Russian or other sanctioned jurisdictions — should reassess their sanctions diligence, counterparty review, and risk allocation strategies in light of this decision.

This publication is a general summary of the law. It does not replace legal advice tailored to your specific circumstances.