

**IN THE SUPREME COURT OF CANADA
(On Appeal from the New Brunswick Court of Appeal)**

B E T W E E N:

HER MAJESTY THE QUEEN

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-and-

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Respondent

-and-

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PART I - OVERVIEW AND FACTS

1. This appeal is of extraordinary importance to the supply management sector, represented by the interveners, Dairy Farmers of Canada, Egg Farmers of Canada, Chicken Farmers of Canada, Turkey Farmers of Canada and Canadian Hatching Egg Producers (collectively, “the SM-5”). The theory of unfettered free trade articulated in the Trial Decision would proscribe not only interprovincial tariffs, but also “non-tariff barriers” (expansively defined as restrictions that make importation or exportation of products more difficult or more costly).¹ If the respondent’s position were adopted, it could result in the destruction of supply management – a regulatory system in place for generations, on which the livelihood of thousands of farmers across Canada depends.

2. The SM-5 submissions draw on a body of cases respecting interprovincial trade in agricultural products. The agriculture cases point to fundamental errors in the Trial Decision, and, of greater importance, suggest a path forward – an interpretation of s. 121 that is at once robust, balanced, grounded in the jurisprudence and reflective of the principles of federalism. The SM-5 accept the facts as set out in the appellant’s factum.

PART II - ISSUES

3. The SM-5 will address s. 121 of the *Constitution Act, 1867*, but not the constitutionality of s. 134 of the New Brunswick *Liquor Control Act* (“LCA”).

PART III - ARGUMENT

A. Context: Interprovincial Trade in Alcohol and in Agricultural Products

4. Although the immediate focus of this appeal is on the constitutionality under s. 121 of a provincial liquor monopoly provision, it is helpful to look beyond liquor and consider how this Court has addressed related issues respecting interprovincial trade of agricultural products.

5. Federal and provincial governments struggled for many years with “inherent instability” and “chaos” in certain Canadian agricultural markets.² Following years of contentious constitutional battles and often unsuccessful attempts at regulation,³ the policy response in the poultry and dairy

¹ Trial Decision, Appellant’s Record, Vol. 1, Tab 1 at para. 75 [Trial Decision].

² *Fédération des producteurs de volailles du Québec v. Pelland*, [2005] 1 S.C.R. 292 at para. 38 [Pelland]; *Reference re Agricultural Products Marketing*, [1978] 2 S.C.R. 1198 at 1251, 1268 [Egg Reference].

³ See e.g. *Lawson v. Interior Tree Fruit and Vegetable Committee of Direction*, [1931] S.C.R. 357; *Lower Mainland Dairy Products Sales Adjustment Committee v. Crystal Dairy Limited*,

sectors was a national system of supply management built on the three pillars of production, pricing and import controls. Production targets are established in response to consumer demand and implemented through quotas. Producer pricing is regulated to stabilize the returns of producers. The federal government sets tariff-rate quotas to provide for a negotiated level of import access to Canada's trading partners, while imposing a customs tariff on over-quota imports.⁴

6. Constitutional authority over marketing is divided depending on whether the product is traded locally or extraprovincially. Thus, for such systems to be workable and constitutional, federal-provincial cooperation is essential. Provinces cannot "go it alone" and Parliament cannot either.⁵

7. Against this backdrop, supply management was created through a "sincere cooperative effort",⁶ resulting in what Justice Abella described in *Pelland* as a "successful federal-provincial merger".⁷ Each level of government "enacted laws and regulations, based on their respective legislative competencies, to create a unified and coherent regulatory scheme".⁸ Provincial legislation authorized commodity boards to regulate production and intraprovincial marketing,⁹ and Parliament authorized national marketing organizations to regulate interprovincial and export trade.¹⁰ The dovetailing of the system is accomplished through a combination of delegation, incorporation by reference and parallel regulation, consistent with commitments undertaken in commodity-specific federal-provincial agreements.¹¹

[1933] 1 D.L.R. 82 (J.C.P.C.) [*Crystal Dairy*]; *Attorney General for Manitoba v. Manitoba Egg and Poultry Association et al.*, [1971] S.C.R. 689 [*Manitoba Egg SCC*].

⁴ Khamla Heminthavong, "Canada's Supply Management System", Library of Parliament, Parliamentary Information and Research Service, Publication No. 2015-138-E, 17 Dec. 2015, cited in Appellant's Factum at footnote 118.

⁵ *Egg Reference*, *supra* note 2 at 1296; *British Columbia (Milk Marketing Board) v. Aquilini*, 1997 CanLII 2061 (B.C.S.C.) at para. 69.

⁶ *Egg Reference*, *supra* note 2 at 1296-1297, Pigeon J.

⁷ *Pelland*, *supra* note 2 at para. 38.

⁸ *Ibid.*

⁹ *Egg Reference*, *supra* note 2 at 1297; *Pelland*, *supra* note 2 at paras. 8, 22; *Allan v. Ontario (Attorney General)*, [2005] O.J. No. 3083 at paras. 5-6, 12-13 [*Allan*].

¹⁰ *Farm Products Agencies Act*, R.S.C. 1985, c. F-4, see especially ss. 21-22; *Canadian Dairy Commission Act*, R.S.C. 1985, c. C-15, s. 9. The Canadian Dairy Commission also has import authority: see s. 9(1)(b).

¹¹ *Pelland*, *supra* note 2 at paras. 5-10, 38, 51-61; *Egg Reference*, *supra* note 2 at 1296-1297; *Allan*, *supra* note 9 at paras. 5-12.

8. There are obvious differences but also certain parallels in respect of interprovincial trade in liquor. In the post-Prohibition era, provincial legislatures established liquor boards, such as the New Brunswick Liquor Corporation, to control, among other things, the possession and marketing of liquor within the province.¹² For its part, as described by Iacobucci J. in *Air Canada*, Parliament enacted legislation to “assist the provinces in their efforts to control the traffic in liquor”.¹³ The federal *Importation of Intoxicating Liquors Act* (“*IILA*”), has thus made a “distinctively federal contribution to the securing of the provincial liquor monopolies”.¹⁴

B. Jurisprudence: Agricultural Caselaw on s. 121

9. In 1958, Rand J. sowed the seeds of the modern interpretation of s. 121 in *Murphy*,¹⁵ concerning federal grain pooling and transportation measures. Relying on *Gold Seal*,¹⁶ the majority dismissed the s. 121 challenge, holding that the measures were not in the nature of customs duties.¹⁷ In concurring reasons, Rand J. (supported by Cartwright J.) adopted a broader interpretation of s. 121 as also “aimed against trade regulation which is designed to place fetters upon or raise impediments to or otherwise restrict or limit” interprovincial trade. He held that s. 121 permits “a free flow of trade regulated in subsidiary features” and “does not create a level of trade activity divested of all regulation”. The focus of the prohibition in s. 121, Rand J. ruled, is on “trade regulation that in its essence and purpose is related to a provincial boundary”.¹⁸ In short, the Rand interpretation: a) focuses on the design of the measure; b) permits regulation of trade in its subsidiary features; and c) forbids trade regulation if its essence and purpose is related to a provincial boundary.

10. The Rand interpretation was cited with approval in 1970 in *Manitoba Egg*,¹⁹ at the height of the “chicken and egg wars” before supply management was introduced nationally. The Manitoba Court of Appeal (per Dickson J.A., as he then was) found that the proposed provincial scheme

¹² *R. v. Gautreau* (1978), 21 N.B.R. (2d) 701 (N.B.C.A.) at 723 [*Gautreau*].

¹³ *Air Canada v. Ontario (Liquor Control Board)*, [1997] 2 S.C.R. 581 at para. 44 [*Air Canada*].

¹⁴ *Ibid.*

¹⁵ *Murphy v. C.P.R.*, [1958] S.C.R. 626 [*Murphy*].

¹⁶ *Gold Seal Ltd. v. Alberta (Attorney-General)* (1921), 62 S.C.R. 424 [*Gold Seal*].

¹⁷ *Murphy*, *supra* note 15 at 634.

¹⁸ *Ibid* at 638-642.

¹⁹ *Order in Council 1083/70 re Provincial Control of Agricultural Products (Re)* (1971), 18 D.L.R. (3d) 326 (Man. C.A.).

raised “direct and substantial impediments” to interprovincial trade and was contrary to s. 121.²⁰ He contrasted the more restrictive approach to s. 121 in *Gold Seal* with the broader approach adopted by Rand J. in *Murphy*. Dickson J.A. supported the Rand interpretation as a “refinement of interpretation”, as opposed to a departure from basic principles.²¹ The Supreme Court of Canada dismissed the appeal without finding it necessary to address s. 121.²² In a concurring decision, Laskin J. (as he then was), concurred in by Hall J., touched on s. 121, observing that “[i]f it be thought necessary or desirable to arrest such movement at any provincial border then the aid of the Parliament of Canada must be sought...”.²³

11. The seminal supply management case is the 1978 *Egg Reference*.²⁴ Laskin C.J.C. (writing for four justices) discussed s. 121 at length,²⁵ together with division of powers and administrative law (delegation) issues. The relatively brief majority reasons of Pigeon J. (writing for five justices) did not explicitly address s. 121. Several points stand out in the decision:

- a) Laskin C.J.C. discussed the *Gold Seal* interpretation of s. 121 as “prohibiting the levying of customs duties or like charges” in interprovincial trade, but also accepted Rand J.’s “broader interpretation” of s. 121 in *Murphy*. He found that nothing in the marketing scheme for eggs “is *in its essence and purpose* related to a provincial boundary” [emphasis in original]. More specifically, he upheld the constitutionality of federal measures that “take into account patterns of production in the various Provinces in attempting to establish an equitable basis for the flow of trade”.²⁶
- b) Laskin C.J.C. held that s. 121 would be breached by “punitive regulation directed in favour of or against any province”, but that this did not apply to the egg marketing scheme.²⁷ He also added an important qualification to *Atlantic Smoke Shops*,²⁸ holding that the

²⁰ *Ibid* at 340-341.

²¹ *Ibid* at 336-337.

²² *Manitoba Egg SCC*, *supra* note 3.

²³ *Ibid* at 717.

²⁴ *Supra* note 2.

²⁵ See also *Reference re Agricultural Products Marketing Act* (1977), 16 O.R. (2d) 451 at paras. 489, 503-504 (Ont. C.A.) [*Egg Reference ONCA*].

²⁶ *Egg Reference*, *supra* note 2 at 1267-1268.

²⁷ *Ibid* at 1268.

²⁸ *Atlantic Smoke Shops Limited v. Conlon*, [1943] 4 D.L.R. 81 at 92 (J.C.P.C.), cited in *Egg Reference*, *supra* note 2 at 1267.

application of s. 121 may differ according to whether federal or provincial legislation is involved, particularly factoring in the trade and commerce power under s. 91(2).²⁹

- c) The s. 121 challenge was not only directed at federal measures, but more generally at “the interlocking schemes [which] interfere with the free flow of trade interprovincially”.³⁰ In that regard, the majority finding of Pigeon J. from a division of powers perspective is significant. Pigeon J. held that “a province cannot control extraprovincial trade”, while supporting as “perfectly legitimate” the ability of provinces to use of “provincial control to complement federal regulation of extraprovincial trade”.³¹ He underscored the necessity of federal-provincial cooperation “in respect of a commodity which all governments concerned agree requires regulation in both intraprovincial and extraprovincial trade”. He cited the exhaustiveness doctrine: “whatever belongs to self-government in Canada belongs either to the Dominion or to the provinces”.³²
- d) The *Egg Reference* also addressed *Crystal Dairy*,³³ a Privy Council decision about whether a marketing levy should be treated as a form of taxation for constitutional purposes. Laskin C.J.C. held that the Court of Appeal majority rightly treated *Crystal Dairy* as binding unless varied by the Supreme Court of Canada.³⁴ After a careful analysis of subsequent caselaw, he concluded *Crystal Dairy* had been “attenuated by succeeding cases” and should be overturned,³⁵ while taking care to note this would not be catastrophic for the egg levy system in question.³⁶ Pigeon J. agreed, both that *Crystal Dairy* should be overruled, and that the resulting problem with the egg levy system could readily be cured.³⁷

12. Section 121 was further addressed in 1998 in *Richardson*.³⁸ Although the focus of *Richardson* was on s. 6 mobility guarantees under the *Canadian Charter of Rights and Freedoms*, s. 121 was discussed in both the majority and minority opinions following a request from the Court for

²⁹ *Egg Reference*, *supra* note 2 at 1267.

³⁰ *Ibid* at 1220. See also *Egg Reference ONCA*, *supra* note 25 at 489, 503-504.

³¹ *Egg Reference*, *supra* note 2 at 1296-1297.

³² *Ibid* at 1296.

³³ *Supra* note 3.

³⁴ *Egg Reference*, *supra* note 2 at 1229.

³⁵ *Ibid* at 1229-1257.

³⁶ *Ibid* at 1257.

³⁷ *Ibid* at 1291-1292.

³⁸ *Canadian Egg Marketing Agency v. Richardson*, [1998] 3 S.C.R. 157 [*Richardson*].

comments on s. 121 by the parties.³⁹ The majority (per Iacobucci and Bastarache JJ.) compared the *Gold Seal* interpretation of s. 121 to the Rand-Laskin interpretation in *Murphy* and the *Egg Reference*, which “defined the scope of s. 121 somewhat more broadly”.⁴⁰ Iacobucci and Bastarache JJ. also referred to a 1982 federal proposal to broaden s. 121’s scope, which was rejected by nine out of ten provinces and never pursued.⁴¹ In a similar vein, McLachlin J. (as she then was, dissenting but not on this issue) situated s. 121 in the larger Canadian constitutional structure, which, she said, “represents a historical compromise between regional interests and the vision of economic union”.⁴² She expressed support for the Rand-Laskin interpretation of s. 121, while observing that s. 121 “permits legislation which incidentally impinges on the flow of goods and services across provincial boundaries”.⁴³

13. The *Pelland* decision in 2005 was not specifically directed at s. 121 but reaffirmed the *Egg Reference* in concluding that the federal-provincial chicken marketing scheme is constitutional and can limit the production of chicken destined exclusively for the interprovincial market.⁴⁴ Speaking for the Court, Justice Abella ruled that the delegation of regulatory powers, including the referential incorporation of provincial marketing laws by the federal body, “falls squarely within” the jurisprudence on “administrative delegation in aid of cooperative federalism”.⁴⁵

C. Insights: Four Key Lessons from the Agriculture Cases

14. Important insights relevant to this appeal can be distilled from these agricultural cases, particularly when read together with the division of powers jurisprudence of this Court.

15. First, the agriculture cases point to a more nuanced and progressive view of s. 121 than suggested by *Gold Seal* alone. Thus, it is inaccurate to describe *Gold Seal* as being of “singular importance”⁴⁶ to the scope of s. 121, and as interpreted “to ring the death knell” to constitutionally protected interprovincial free trade.⁴⁷ The Rand-Laskin interpretation of s. 121, contrary to the

³⁹ *Ibid* at para. 66.

⁴⁰ *Ibid* at paras. 63-64.

⁴¹ *Ibid* at para. 65.

⁴² *Ibid* at para. 123.

⁴³ *Ibid* at para. 123.

⁴⁴ *Pelland*, *supra* note 2 at paras. 36-38.

⁴⁵ *Ibid* at para. 55.

⁴⁶ Trial Decision, *supra* note 1 at para. 102.

⁴⁷ *Ibid* at para. 107.

contention by the respondent,⁴⁸ goes well beyond simply a prohibition of customs tariffs affecting interprovincial trade.⁴⁹ In the event the Rand-Laskin interpretation is adopted in this appeal, the focus would not be on a binary tariff/non-tariff distinction, but on whether s. 134 of the *LCA*, *in its essence and purpose*, relates to a provincial boundary.

16. Second, the agriculture cases confirm that s. 121 is to be construed within the architecture of the Constitution, rather than treated as a stand-alone and absolute free trade guarantee. As the Court held in the *Secession Reference*, “[t]he individual elements of the Constitution are linked to the others, and must be interpreted by reference to the structure of the Constitution as a whole”.⁵⁰ That constitutional structure, as explained in *Richardson*, “represents a historical compromise between regional interests and the vision of economic union”.⁵¹ In keeping with this structure, the agriculture cases suggest s. 121 is to be read in the context of, rather than separate and apart from, the powers accorded by ss. 91 and 92.

17. In order to give effect to the principle of federalism built into our constitution, this Court has devised a flexible “pith and substance” analysis, which focuses on the “dominant purpose” of impugned legislation, as opposed to merely “incidental effects”.⁵² Incidental effects “may be of significant practical importance but are collateral and secondary to the mandate of the enacting legislature”.⁵³ The Rand-Laskin “essence and purpose” interpretation of s. 121 has close parallels to pith and substance analysis. It is also notable that pith and substance analysis has been applied to legislation challenged based on s. 125 of the *Constitution Act, 1867*, which is analogous to s. 121 in constraining both federal and provincial governments.⁵⁴

18. The agriculture cases give further effect to the principle of federalism – “the lodestar by which the courts have been guided”⁵⁵ – in rejecting the proposition that s. 121 guarantees “absolute freedom of trade” within Canada.⁵⁶ As Rand J. held in *Murphy*, s. 121 “does not create a level of

⁴⁸ Respondent’s Factum at para. 77.

⁴⁹ Trial Decision, *supra* note 1 at para. 187.

⁵⁰ *Reference re Secession of Quebec*, [1998] 2 S.C.R. 217 at para. 50 [*Secession Reference*].

⁵¹ *Richardson*, *supra* note 38 at para. 123.

⁵² *Canadian Western Bank v. Alberta*, [2007] 2 S.C.R. 3 at paras. 25-29 [*Canadian Western*].

⁵³ *Ibid* at para. 28.

⁵⁴ See e.g. *Westbank First Nation v. British Columbia Hydro and Power Authority*, [1999] 3 S.C.R. 134 at para. 30.

⁵⁵ *Secession Reference*, *supra* note 50 at para. 56.

⁵⁶ *Egg Reference*, *supra* note 2 at 1267.

trade activity divested of all regulation”.⁵⁷ Similarly, as Laskin C.J.C. held in the *Egg Reference*, s. 121 does not preclude federal marketing legislation “attempting to establish an equitable basis for the flow of trade”.⁵⁸ In other words, the words “admitted free” in s. 121 do not mean admitted free of regulation, particularly taking into account the federal power over the regulation of trade and commerce in s. 91(2). To contend that s. 121 guarantees “unfettered”, “unqualified” or “unrestrained” free trade⁵⁹ would, in the parlance of *Montreal Protestant School Board*,⁶⁰ “improperly amplify” the legal character and purpose of s. 121.

19. Third, the agriculture cases exemplify the foundational principle that “constitutional doctrine must facilitate, not undermine” cooperative federalism.⁶¹ This is not simply a “request for accommodation”, as suggested by the trial judge.⁶² It is a “fundamental guiding principle”⁶³ of our Constitution. The agriculture cases suggest that respect for cooperative federalism should inform the constitutional analysis of legislative measures from the outset, rather than operate as a *post facto* justificatory mechanism akin to s. 1 of the *Charter*.

20. In *Pelland*, Abella J. said of the cooperative federal-provincial supply management system for chicken that it “both reflects and reifies Canadian federalism’s constitutional creativity and cooperative flexibility”.⁶⁴ More generally, cooperative federalism has been credited with allowing for “a continuous redistribution of powers and resources without recourse to the courts or the amending process”.⁶⁵ This stands in stark contrast to the respondent’s characterization of cooperative federalism as a “continuing failure” that prioritizes “short term interests of politicians and their favoured constituencies”.⁶⁶

21. To be clear, cooperative federalism does not do away with constitutional limits and requirements. Thus, in the *Egg Reference*, Pigeon J. was alive to the admonition that cooperative

⁵⁷ *Murphy*, *supra* note 15 at 642.

⁵⁸ *Egg Reference*, *supra* note 2 at 1268.

⁵⁹ Trial Decision, *supra* note 1 at para. 178; Respondent’s Factum at paras. 34, 50.

⁶⁰ *Greater Montreal Protestant School Board v. Quebec (Attorney General)*, [1989] 1 S.C.R. 377.

⁶¹ *Canadian Western*, *supra* note 52 at para. 24.

⁶² Trial Decision, *supra* note 1 at para. 165.

⁶³ *Canadian Western*, *supra* note 52 at paras. 21-24.

⁶⁴ *Pelland*, *supra* note 2 at para. 15.

⁶⁵ *Quebec (Attorney General) v. Canada (Attorney General)*, [2015] 1 S.C.R. 693 at para. 17.

⁶⁶ Respondent’s Factum at paras. 7, 9.

legislation “has to be carefully framed”, and that “a province cannot control extraprovincial trade”. At the same time, he strongly supported the legitimacy of provincial laws complementary to federal regulation of interprovincial trade.⁶⁷ Similar reasoning was adopted by the Alberta Court of Appeal in *Leth Farms* in upholding the principle derived from the *Egg Reference* that “[c]ourts should strive to give effect to cooperative federal and provincial marketing schemes based on interlocking quotas and levies”.⁶⁸

22. The agriculture cases also indicate that, where governments work together to create a unified regulatory scheme, it is crucially important to have regard to the scheme in its entirety and not construe impugned provisions in isolation. Thus, in this appeal, the constitutionality of the provincial liquor monopoly in s. 134 of the New Brunswick *LCA* should be considered in the context of the support for securing that monopoly in s. 3 of the federal *IIA*.⁶⁹

23. Fourth, the agriculture cases provide guidance on how to approach long-standing constitutional decisions attenuated by subsequent case law. Faced with uncertainty concerning *Crystal Dairy*, the Supreme Court in the *Egg Reference* took great care to adopt an incremental approach while judiciously weighing the implications for the challenged scheme as a whole.

24. Caution is especially warranted in any re-examination of *Gold Seal* or other s. 121 case law based on drafting history and historical context. In this regard, the SM-5 agrees with the appellant and a number of the government interveners that the trial decision runs counter to *Bedford*.⁷⁰ The historical record surrounding the drafting of s. 121 is “weak, making it difficult to determine, definitively, the intentions of any of the framers”.⁷¹ Specific issues include the following:

- a) The speech by Lord Carnarvon before the British Parliament, said to show an intent to focus on “non-tariff barriers”,⁷² made no mention of s. 121, and all of the “non-tariff barriers” cited refer to specific heads of federal power in s. 91.
- b) Similarly, the speeches by the Fathers of Confederation, said by the trial judge to show the

⁶⁷ *Egg Reference*, *supra* note 2 at 1296-1297.

⁶⁸ *Leth Farms Ltd. v. Alberta Turkey Growers Marketing Board*, 2000 ABCA 32, at para ssss.

⁶⁹ See *Air Canada*, *supra* note 13 at paras. 53-55, referring to *Gautreau*, *supra* note 12.

⁷⁰ *Canada (Attorney General) v. Bedford*, [2013] 3 S.C.R. 1101.

⁷¹ P.W. Hogg & W.K. Wright, “Canadian Federalism, the Privy Council and the Supreme Court: Reflections on the Debate about Canadian Federalism” (2005), 38(2) U.B.C.L.R. 329 at 331.

⁷² Trial Decision, *supra*, note 1 at paras. 98-99.

intent behind s. 121,⁷³ all predate the drafting of that provision.

- c) Indeed, from a review of the record before the Court, there does not appear to be a single contemporaneous statement of intent directly concerned with s. 121.
- d) Paradoxically, the respondent's expert⁷⁴ relies on a sweeping 21st century definition of "non-tariff barriers", while suggesting the Fathers of Confederation sought to address non-tariff barriers, so defined, "more than a century earlier". That definition is said to include "technical standards, quotas, levies, embargoes, border impediments, sanctions and outright trade restrictions, which are in the nature of impediments or fetters".

25. As the Court warned in *Moriarity*, legislative statements of purpose may be "vague and incomplete and inferences of legislative purpose may be subjective and prone to error".⁷⁵ Given the weakness of the historical record, that warning is particularly apt in this case.

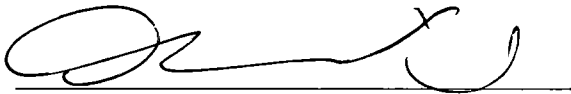
D. Conclusion

26. The agriculture cases point to an interpretation of s. 121 that is at once robust, balanced, grounded in the jurisprudence and reflective of the principle of federalism. The SM-5 urge the Court to heed the lessons from the agriculture cases with a view to maintaining proportionality, certainty and predictability in the interpretation of our Constitution.

PARTS IV AND V - COSTS AND ORDER SOUGHT

27. The SM-5 seek no costs on the appeal, and ask that no costs be ordered against them.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 20th day of November, 2017.



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⁷³ *Ibid* at paras. 91-97; Respondent's Factum at para. 35.

⁷⁴ Appellant's Record, Vol. V, Tab 30 at 130.

⁷⁵ *R. v. Moriarity*, [2015] 3 S.C.R. 485 at para. 31.

PART VI - TABLE OF AUTHORITIES

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