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Lessons in the law of contracts: The meeting of the minds

By **Stephen Thiele, Rob Winterstein and Michael Lauricella**

Law360 Canada (November 13, 2024, 10:11 AM EST) -- The law of contracts is comprised of many important legal principles. One of those principles is that in order to have a valid and enforceable contract the parties must be *ad idem*. In other words, there must be a meeting of the minds about the essential terms of the contract. In the absence of a meeting of the minds, an alleged agreement between the parties is unenforceable.

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For the parties in *Corridor Transport Inc. v. Lentini*, 2024 ONCA 773, the foregoing bedrock principle of contract law was an important factor in the dismissal of the plaintiffs' action for breach of contract and wrongful conversion against the defendants, who operated a small family-owned trucking business.

This case arose out of a failed business venture, envisioned by JH, an experienced and sophisticated businessman, and his "right-hand man," CM, to transport specialized steel products by rail. Although JH owned and operated numerous companies and businesses in various industries in Ontario, in order to make the new venture viable, he needed to acquire a steel trucking business that had experience in hauling steel from road to rail. One such business was a small family-trucking business owned by VL Sr. and his wife, EL. Their business had transported steel for decades.

Until 2009, VL Sr. and EL operated their business through Lentini Trucking Inc. (LTI). VL Sr. was the sole director of LTI. However, in 2009, LTI was wound up, and a new business was reincorporated under the name LTI Logistics Inc. The sole director of the reincorporated business was VL Jr. VL Jr., who worked for Loblaws and was married and lived independently from his mother and father, did not play a role in the trucking business except to deliver customer cheques to EL, who deposited them in the trucking businesses bank account at BMO.

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In April 2010, VL Sr. and EL agreed to work with Corridor Canada Inc., a company which had been incorporated by JH to carry out his steel transportation vision. To memorialize his discussions with VL Sr. and EL, JH drafted a lengthy and complicated Memorandum of Understanding (MOU), which, among other things, explained that the parties' business would entail freight brokerage and shipping, that start-up and expansion capital would be provided to VL Sr. and EL, and that VL Sr. and EL could compete with the partnership provided that their independent revenue never exceeded a specified threshold.

To further the business venture, JH incorporated Corridor Transport Inc. (CTI) and registered Corridor Transport Limited Partnership, with CTI as its general partner. JH also obtained a licence to permit CTI to operate under the name "LTI Logistics Group" (LTI Group). LTI Group, a name which mimicked the business name of the defendants' trucking business, was referenced in an RBC banking agreement to open a bank account for CTI and the RBC. Although "VL" was the President of CTI, "VL" was not identified as President under the banking agreement and JH signed as "President" on a bank resolution for CTI. JH admitted that he did so in order to retain control over the RBC account.

In March 2011, a dispute arose with JH and CM when VL Sr. learned that he had no signing authority over the RBC account. This caused VL Sr. and EL to begin depositing customer cheques from the services they provided to their own customer to be deposited into the BMO account rather than the RBC account, which could not be used any longer, in any event, according to RBC, for the deposit of cheques made payable to LTI. The total amount of cheques deposited into LTI's BMO account was over $148,000.

The plaintiffs' contended that this money belonged to them and that the defendants had wrongfully converted these funds.

At trial, it was determined that there was no enforceable contract between the parties and that VL Sr. and EL were entitled to deposit cheques made payable to the family trucking business into its bank account at BMO.

On appeal, the plaintiffs contended that the trial judge had erred in failing to find that the parties had entered into a partnership and that the plaintiffs were thereby entitled to the monies that had been deposited into the family trucking business's bank account.

On the other hand, the defendants contended that the trial judge made no reversible error. Although it was not disputed that the parties had been working in partnership, this did not mean that there was an enforceable contract or that the plaintiffs were entitled to the monies in dispute.

In the Court of Appeal for Ontario's view, the enforceability of the alleged contract between the parties was a matter of contractual interpretation.

As found by the Supreme Court of Canada in *Sattva Capital Corp. v. Creston Moly Corp.*, 2014 SCC 53, the trial judge's interpretation of the parties' contract was entitled to deference. To overturn the

trial judge's decision, the plaintiffs were required to demonstrate that the trial judge had erred in law or principle or that the trial judge's factual findings constituted a palpable and overriding error.

The plaintiffs were unable to do so.

An important fact was that the contract between the parties raised doubt as to the identity of the actual contracting parties. While JH believed that VL Jr. was the contracting party on the part of the defendants, the defendants denied ever putting forth VL Jr. as their designate. VL Jr. was a director in name only for the reincorporated family trucking business and his only role was receiving cheques at his house and giving them to his mother for deposit.

In the circumstances, there was no meeting of the minds between the parties on the essential terms of their joint relationship, including the ownership of the account receivables for the reincorporated family trucking business.

The Court of Appeal for Ontario found that since the identity of the contracting parties was an essential term of the contract and that there was confusion on this issue, this was enough to conclude that there was no enforceable agreement between the parties.

As well, the Court of Appeal found that the evidence supported the conclusion that the parties never understood that all of the proceeds of the family trucking business belonged to the partnership and that the only reason that cheques belonging to that business were deposited into the partnership's bank account was that JH had agreed to factor the receivables of the family trucking business.

Based on this finding, the plaintiffs were unable to establish that the trial judge had erred in concluding that there was no conversion.

Conversion is a tort of strict liability that is established when one party wrongfully interferes with another party's property: see *Boma Manufacturing Ltd. v. Canadian Imperial Bank of Commerce*, [1996] S.C.J. No. 111.

Without an enforceable contract, the plaintiffs were simply unable to prove an entitlement to the funds that had been deposited into the family trucking business's BMO account. In the court's view, the practice of depositing earlier cheques into the partnership account was not enough for the plaintiffs to establish entitlement to the monies in dispute. The plaintiffs were unable to establish a possessory interest in the funds or that the trial judge had committed any error or made an unreasonable ruling in connection with the monies in dispute.

Accordingly, the Court of Appeal for Ontario dismissed the plaintiffs' appeal, with costs, and the family trucking business was entitled to retain all of the monies that had been deposited into its BMO account.

As a lesson in contracts, this case demonstrates that contracts must be drafted with clarity, with the parties and all essential terms identified and agreed upon. In this case, the plaintiffs were arguably the authors of their own misfortune, as they drafted all of the key documents in dispute and were found as attempting to control the manner in which was intended to be either a joint venture or partnership operated to the exclusion of VL Sr. and EL. Furthermore, this case shows once again that courts will tend to side in favour of a relatively unsophisticated party against a more sophisticated party. Here, JH was a sophisticated and experienced businessman who was dealing with two individuals who were simply trying to make a living operating a small family trucking business.

In circumstances where there was a lack of clarity in the documents which purportedly governed their relationship, it was easy for the courts to find in favour of the individuals involved with the small family trucking business.

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