
Proper Interpretation Of The Word “Proceeds”

Reported Case:	McCain Produce v. PEI Lending Agency
Citation:	2010 PECA 04
The Court:	Prince Edward Island Court of Appeal
At Issue:	The proper interpretation of the word “proceeds” as used in a commercial lending contract
Judgment Rendered:	February 26, 2010
Factual Summary:	<p>The Agency had lent money to Rural Realty, a farming corporation, and had taken security interests in all of Rural Realty’s crops and receivables to secure the loan. To enable Rural Realty to produce crops, Rural Realty and the Agency entered into a tri-party agreement with McCain Produce. Under the Agreement, McCain agreed to provide farming supplies to Rural Realty, and in return was granted, among other things, a priority security interest in 50% of the proceeds generated by Rural Realty’s 2004 potato crop.</p> <p>Subsequently, Rural Realty received stabilization payments from the federal government under the Canadian Agricultural Income Stabilization Program (CAIS). The purpose of this program was to protect farmers from income fluctuation outside of their control, and payments were based on a number of factors including overall farm income. A dispute arose between McCain Produce and the Agency as to whether the CAIS payments were ‘proceeds’ arising from Rural Realty’s 2004 potato crop.</p>
Disposition by Lower Court:	The applications judge ruled that the CAIS payments represented compensation for loss of income. The ‘income’ in this case was the proceeds from the potato crop. As a result, the applications judge found that the CAIS funds were proceeds generated from the potato crop, notwithstanding the fact that the payments were based on overall farm income rather than income from the particular crop.
On Appeal:	The Court of Appeal rejected the applications judge’s decision. Although both McCain and the Agency considered this to be a novel case which would set a precedent for future

commercial lending, the Court of Appeal was of the view it should be resolved through ordinary principles of contractual interpretation. In particular, it noted that in order for a word to be ambiguous, it must be capable of supporting two different meanings.

The court observed there was no judicial authority as to the meaning of the word 'proceeds', and examined the plain meaning of the word as expressed by various dictionaries. It concluded that the word means 'something which has been derived as a result of converting an article or item into something else', and 'something which can be identifiable, traceable, or linked to the original item'.

The word 'proceeds' could not be construed as including the CAIS payments, and the applications judge had stretched the word too far to create an ambiguity.
