

IN THE MATTER OF THE SECURITIES ACT

R.S.N.S.1989, C.418 as amended ("the Act")

- AND -

IN THE MATTER OF KNOWLEDGE HOUSE INC. ("K.H.I.")

- AND -

IN THE MATTER OF

Bruce Elliott Clarke ("the Respondent")

SETTLEMENT AGREEMENT

I. INTRODUCTION:

- (A) By Notice of Hearing dated the 30th day of April 2004 (the "Notice of Hearing"), the Nova Scotia Securities Commission (the "Commission") announced that it proposed to hold a hearing to consider whether, pursuant to section 135 of the Act, in the opinion of the Commission, it is in the public interest for the Commission:
- (i) to make an order pursuant to section 135(a) of the Act determining that the Respondent has contravened the Act or its regulations;
 - (ii) to make an order pursuant to section 135(b) that the Respondent should pay an administrative penalty in an amount to be determined by the Commission upon hearing Staff of the Commission, who will recommend an administrative penalty of seventy five thousand dollars (\$75,000.00);
 - (iii) to make an order pursuant to section 134(c) of the Act that the Respondent shall be denied all exemptions described or referred to in any of sections, 40, 41, 77, 78 and 99 of the Act for a period of five (5) years save and except for trading in his personal RRSP account ;
 - (iv) to make an order pursuant to section 134(d)(i) that the Respondent resign any position that he holds as a director or officer of an issuer as defined under the Act;

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- (v) to make an order pursuant to section 134(d)(ii) prohibiting the Respondent from becoming or acting as a director or officer of any issuer as defined under the Act for a period of five (5) years;
- (vi) to make an order pursuant to section 135A of the Act that the Respondent should pay costs in connection with the joint investigation and conduct of the proceedings in an amount to be determined by the Commission upon hearing Staff of the Commission, who will recommend an order for costs in the amount of seventy five thousand dollars (\$75,000.00);
- (vii) to make an order pursuant to section 33(1) of the Act cancelling the registration of the Respondent.

II. JOINT SETTLEMENT RECOMMENDATION

- (A) Staff of the Commission ("Staff") agree to recommend settlement of the proceedings initiated in respect of the Respondent by the Notice of Hearing in accordance with the terms and conditions set out below. The Respondent agrees to the settlement on the basis of the facts agreed to as hereinafter provided and the Respondent consents to the making of an Order in the form attached as Schedule "A" to this Agreement on the basis of the facts set out below in respect to the violation of the Act.
- (B) This settlement agreement (the "Settlement Agreement"), will be released to the public only if and when the settlement is approved by the Commission.

III. SETTLEMENT OF FACTS AND CONCLUSIONS

Acknowledgment

- (A) Staff and the Respondent agree with the facts and conclusions set out in Part III of the Settlement Agreement. The admissions made by the Respondent herein are made solely for the purpose of effecting a settlement with the Commission and are not to be construed as admissions of fact for any other purpose, including for purposes of civil or any other proceedings which are now or may hereafter be commenced or pending as against the Respondent for any of the activities referred to herein.

Introduction

- (B) The Respondent is a Nova Scotia resident, first having been a registrant under the provisions of the Act on 18 June, 1980 and was at all relevant times a registrant under the provisions of the Act and an employee and investment advisor of National Bank Financial Limited ("N.B.F.L.").

- (C) In 1995 the Respondent was the subject of a disciplinary decision of the Montreal Exchange for violation of article 4101 and article 7006 of the By-laws and rules of the Exchange and agreed in a settlement agreement to pay a fine of fifty thousand dollars and costs in the amount of five thousand dollars.
- (D) At all relevant times Knowledge House Inc. ("K.H.I.") was a reporting issuer in Nova Scotia and was traded publicly on the Toronto Stock Exchange ("the Exchange").
- (E) The trading in K.H.I. which is the subject matter of this Settlement Agreement took place on the Exchange. At all relevant times the Respondent was subject to the rules and policies of the Exchange in relation to such trading. He was also a registrant with the Nova Scotia District Council of the Investment Dealers Association of Canada ("IDA"), a self-regulatory organization recognized by the Nova Scotia Securities Commission, and was subject to IDA by-laws, regulations and policies.

Facts

- (F) Commencing in 1999 a number of K.H.I. insiders and their associates and relatives held accounts at N.B.F.L. and at other dealers. Clarke was the investment advisor for most of these accounts at N.B.F.L. Clarke also operated an account at N.B.F.L. in the name of 2317540 Nova Scotia Limited ("540"), a corporation owned and controlled by him.
- (G) Commencing in late 1999 certain K.H.I. insiders and persons in a special relationship to K.H.I. (the "Insider Group") entered into an arrangement to act jointly to maintain the price of K.H.I. stock (the "Arrangement"), and to carry out transactions in the market to this effect and to provide liquidity for the stock. Clarke agreed to assist the Insider Group in carrying this Arrangement into effect. The Arrangement was never disclosed to the public, contrary to the provisions of the *Act*.
- (H) In the period March, 2000 to July, 2001 Clarke made a large number of purchases of K.H.I. shares on margin through 540. Those purchases were made under the overall direction and control of the Insider Group, who held a beneficial interest in the account. The purpose of the trades was to maintain the price of K.H.I. within a certain range; to create the effect of a liquid market for the shares and in consequence to collaterally affect the values upon which margin could be based in the accounts of shareholders.
- (I) Clarke's purchases of K.H.I. shares, through 540, were funded by transfers of freely trading K.H.I. shares and cash from the Insider Group. None of the members of the Insider Group filed any reports with respect to the transfer of K.H.I. shares into the 540 account, as required by section 116 of the *Act*. None of the members of the Insider Group filed any reports under section 113 of the *Act* with respect to the transactions taking place within the 540 account. Clarke did not file any reports of beneficial ownership by members of the Insider Group in the 540 account, as required by section 117 of the *Act*.

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- (J) In addition to the transactions made through the 540 account, during the relevant time period Clarke entered a large number of purchases and bids for the Insider Group, the purpose of which was to facilitate the Arrangement.
- (K) Clarke violated the Exchange's rules by entering purchases and bids; or causing to be entered purchases and bids that caused the price and bid of KHI to close on an uptick in furtherance of the Arrangement.

Mitigating Factors

- (L) Clarke did not profit from the trading in K.H.I. save and except commissions earned. Clarke did not instigate the Arrangement and did not foresee the consequences of his conduct for Knowledge House investors.
- (M) Clarke voluntarily approached Staff in December, 2003 and has cooperated fully with Staff's investigation, including providing documentary evidence and providing sworn testimony in which he described his participation in the events outlined above.

Conduct Contrary to the Public Interest

- (N) During the material time period Clarke's actions violated Nova Scotia securities law and were contrary to the public interest. Clarke's conduct was detrimental to the integrity and efficiency of the capital markets in Nova Scotia and was prejudicial to the interests of other investors who were not privy to the terms of the Arrangement. In addition, Clarke failed to comply with the By-laws, Rules, Regulations and Policies of the IDA and the Rules and Regulations of the TSX during the relevant time period.

IV. POSITION OF THE RESPONDENT

- (A) For purposes of the final disposition of matters before the Commission, the Respondent admits the conduct alleged in the Statement of Allegations and joins Commission Staff in making this Settlement Agreement.

V. TERMS OF SETTLEMENT

- (A) The Respondent admits the allegations set forth in the Statement of Allegations and acknowledges his violation of the Act.

VI. STAFF COMMITMENT

- (A) If this Settlement Agreement is approved by the Commission, Staff will not initiate any further complaint to the Commission nor commence any proceeding in the Courts of Nova Scotia in respect to the trading of shares in K.H.I. in accordance with the procedures described herein and such further procedures as may be agreed upon between Staff and the Respondent, nor will any further proceedings be instituted against the Respondent in connection with his activities relating to K.H.I. by Market Regulation Services Inc. or the IDA. However, this

agreement is contingent upon the full and complete cooperation of Clarke in the course of the joint investigation of the trading of shares of K.H.I. including but not limited to:

- (i) cooperation with the investigators by providing statements and explanations of trading activity initiated through accounts at N.B.F.L. and such other dealers as the Respondent has knowledge
 - (ii) the delivery of such documents, records or things as are in the Respondent's possession as may be relevant to the investigation of the trading of shares of K.H.I.
 - (iii) to provide testimony at such hearings or trials as may be initiated by the Commission, Market Regulation Services Inc., or the I.D.A. in respect to the trading of shares of K.H.I., or matters arising therefrom that is consistent with the statements hereinbefore provided.
- (B) If this Settlement Agreement is approved by the Commission, it will constitute the entirety of the evidence to be submitted respecting the Respondent in this matter and the Respondent agrees to waive any right to a full hearing and appeal of this matter under the Act.
- (C) If this Settlement Agreement is approved by the Commission, the parties to this Settlement Agreement will not make any statement to the Commission that is inconsistent with this Settlement Agreement.
- (D) If, for any reason whatsoever, this Settlement Agreement is not approved by the Commission, or the Order set forth in schedule "A" is not made by the Commission:
- (i) Each of Staff and Respondent will be entitled to proceed to a hearing of the allegation in the Notice of Hearing and related Statement of Allegations unaffected by the Settlement Agreement or the settlement negotiations;
 - (ii) The terms of the Settlement Agreement shall be treated as being without prejudice to the Respondent and will not be raised in such proceeding or in any other proceeding or disclosed to any person except with the written consent of Staff and the Respondent or as may otherwise be required by law; and
 - (iii) The Respondent agrees that he will not raise in any proceeding the Settlement Agreement or the negotiations or process of approval thereof as a basis of any attack or challenge of the Commission's jurisdiction, alleged bias, appearance of bias, alleged unfairness or any other challenge that may otherwise be available.

VII. DISCLOSURE OF SETTLEMENT AGREEMENT


(A) Staff or the Respondent may refer to any part or all of this Settlement Agreement in the course of the hearing convened to consider this agreement. Otherwise, this Settlement Agreement and its terms will be treated as confidential by all the parties to the Settlement Agreement and will not be disclosed to any Third Party until the Settlement Agreement is approved by the Commission, and will remain confidential forever if, for any reason whatsoever, this settlement is not approved by the Commission.

VIII. EXECUTION OF SETTLEMENT AGREEMENT

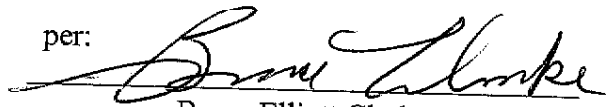
(A) This Settlement Agreement may be signed in one or more counterparts that together shall constitute a binding agreement and a facsimile copy of any signature shall be as effective as an original signature.

Dated this 30th day of April, 2004.

Signed in the presence of:

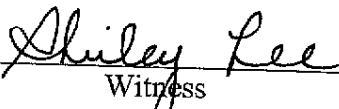


PHILIP M. CHAPMAN
A Barrister of the Supreme
Court of Nova Scotia

per: 
Bruce Elliott Clarke


Dated this 3 day of May, 2004

Signed in the presence of:



Witness
SHIRLEY P. LEE
A Barrister of the Supreme Court
of Nova Scotia

Staff of the Nova Scotia Securities Commission

Per: 
R. Scott Peacock, Deputy Director
Compliance and Enforcement
Nova Scotia Securities Commission

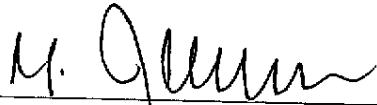
Dated this th 13 day of MAY, 2004

Signed in the presence of:



Witness

Market Regulation Services Inc.

Per: 

Maureen Jensen, Vice President, Eastern
Region

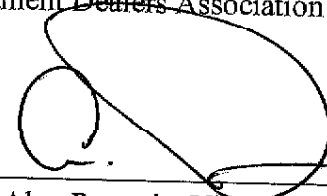
Dated this 13th day of MAY, 2004

Signed in the presence of:



Witness

Investment Dealers Association of Canada

Per: 

Alex Popovic, Vice President
Enforcement