

APPENDIX "A"

**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. ("KHI")

- AND -

**IN THE MATTER OF
Steven Elliott Clarke (the "Respondent")**

SETTLEMENT AGREEMENT

1. INTRODUCTION

- (1) By Notice of Hearing, dated the 7th day of October, 2005 (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:
 - (1) to make an order pursuant to section 135(a) of the Act determining that the Respondent has contravened the Act or its regulations;
 - (2) to make an order pursuant to section 135(b) of the Act that the Respondent pay an administrative penalty in an amount to be determined by the Commission upon hearing Staff of the Commission, and that Staff will recommend an administrative penalty of twenty-five thousand dollars (\$25,000), payable on or before March 1, 2006;
 - (3) to make an order pursuant to section 135A of the Act that the Respondent 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, and that Staff will recommend an order for costs in the sum of ten thousand dollars (\$10,000), payable forthwith;

- (4) to make an order pursuant to section 33(1) of the Act that the Respondent be reprimanded.

2. JOINT SETTLEMENT RECOMMENDATION

- (1) 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.
- (2) This settlement agreement (the "Settlement Agreement") will be released to the public only if and when the settlement is approved by the Commission.

3. STATEMENT OF FACTS AND CONCLUSIONS

Acknowledgement

- (1) 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 pending or may hereafter be commenced as against the Respondent for any of the activities referred to herein.

Introduction

- (2) The Respondent is a Nova Scotia resident who, at all relevant times, was an employee of National Bank Financial Limited ("NBFL"). The Respondent commenced his employment with NBFL in 1999 as a salaried, administrative employee under the principal tutelage and direction of Bruce Elliott Clarke ("Bruce Clarke"), who was an experienced registrant having first been registered under the provisions of the Act on June 18, 1980.

- (3) The Respondent first became a registrant under the provisions of the Act in July 2000, and was thereafter a registrant under the provisions of the Act at all relevant times. Although a registrant, the Respondent's role at NBFL remained materially unchanged following his registration and, throughout the relevant period, he relied and acted upon the advice and direction he received from Bruce Clarke.
- (4) At all relevant times Knowledge House Inc. ("KHI") was a reporting issuer in Nova Scotia and was traded publicly on the Toronto Stock Exchange (the "Exchange").
- (5) The trading in KHI, is the subject matter of this Settlement Agreement, took place on the Exchange between November 2000 and August 2001. During this period 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

- (6) Commencing in 1999 a number of KHI insiders, their associates and relatives held accounts at NBFL as well as at other dealers. Bruce Clarke was the primary investment advisor for most of these accounts at NBFL.
- (7) Commencing in late 1999, prior to the time that the Respondent first became a registrant under the provisions of the Act, certain KHI insiders and persons in a special relationship to KHI (the "Insider Group") entered into an arrangement to act jointly to maintain the price of KHI stock (the "Arrangement"), and to carry out transactions in the market to this effect and to provide liquidity for the stock. Bruce Clarke agreed to assist the Insider Group in putting the Arrangement into effect. The Arrangement was never disclosed to the public, contrary to the provisions of the Act. The Respondent was not aware of the Arrangement.
- (8) During the period November 2000 to August 2001, at the direction and on the advice of Bruce Clarke, the Respondent entered purchases and bids of KHI for the Insider Group. The Respondent was not aware that the purpose of the purchases and bids was to facilitate the Arrangement. While the Respondent violated the Exchange's rules by entering the purchases

and bids (which caused the price and bid of KHI to close on an uptick in furtherance of the Arrangement), he was not aware of the Arrangement at the time such trades were entered nor was the Respondent aware that such transactions were being effected for the purpose of maintaining the price of KHI within a certain range and creating the effect of a liquid market for the shares.

Mitigating Factors

- (9) The Respondent acknowledges and accepts responsibility for the conduct, the subject matter of Staff's allegations, and is remorseful to have been associated with such conduct and the effect it may have had on Knowledge House investors.

- (10) The Respondent was not aware of the Arrangement at the time the subject trades were entered nor was the Respondent aware that such transactions were being effected for the purpose of maintaining the price of KHI within a certain range while creating the effect of a liquid market for the shares. The Respondent's participation in carrying out the Arrangement was unintentional and occurred without his knowledge.

- (11) At the time of the subject transactions, the Respondent had been a registrant for less than one year and, given his relative inexperience, relied reasonably on the advice and direction given to him by Bruce Clarke, which advice and direction subsequently proved to be erroneous.

- (12) The Respondent has already been subject to significant internal discipline, including the termination of his employment by NBFL in October 2001. Another investment dealer, subsequent to his termination by NBFL, hired the Respondent. The approval of the Respondent's registration with this new employer was conditional upon the imposition of close supervision, which program of close supervision has remained in place throughout the intervening four-year period. The Respondent has agreed to be subject to a program of further supervision for twelve (12) months with quarterly reports to the Commission.

- (13) The Respondent has no prior disciplinary record. The Respondent's conduct during the four years subsequent to the trading in KHI, which is the subject matter of this Settlement Agreement, has similarly been without disciplinary incident or sanction.

- (14) The Respondent 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.
- (15) As a salaried employee, the Respondent did not profit from the trading in KHI.

Conduct Contrary to the Public Interest

- (16) During the material time period the Respondent's actions violated Nova Scotia securities law and were contrary to the public interest. The Respondent'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, the Respondent 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.

4. POSITION OF THE RESPONDENT

- (1) 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.

5. TERMS OF SETTLEMENT

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

6. STAFF COMMITMENT

- (1) 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 KHI 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 KHI by Market Regulation Services Inc. or the IDA. However, this agreement is contingent upon the full and complete cooperation of the Respondent in the course of the joint investigation of the trading of shares of KHI, including but not limited to:

- (1) cooperation with the investigators by providing statements and explanations of trading activity initiated through accounts at NBFL and such other dealers as the Respondent has knowledge;
 - (2) 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 KHI;
 - (3) to provide testimony at such hearings or trials as may be initiated by the Commission, Market Regulation Services Inc., or the IDA in respect to the trading of shares of KHI, or matters arising therefrom that is consistent with the statements hereinbefore provided.
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- (2) 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.
 - (3) If the Commission approves this Settlement Agreement, the parties to this Settlement Agreement will not make any statement to the Commission that is inconsistent with this Settlement Agreement.
 - (4) 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:
 - (1) each of Staff and the Respondent will be entitled to proceed to a hearing of the allegations in the Notice of Hearing and related Statement of Allegations unaffected by the Settlement Agreement or the settlement negotiations;

- (2) 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
- (3) 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.

7. DISCLOSURE OF SETTLEMENT AGREEMENT

- (1) Staff of 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, the Commission does not approve this settlement.

8. EXECUTION OF SETTLEMENT AGREEMENT

- (1) 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 20th day of October 2005.

SIGNED, SEALED AND DELIVERED
in the presence of:

Witness

"Steven Clarke"

Per: _____

Steven Elliott Clarke

Dated this 7th day of October 2005.

SIGNED, SEALED AND DELIVERED
in the presence of:

Staff of the Nova Scotia Securities Commission

"R. Scott Peacock"

Per: _____

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

Dated this 12th day of October 2005.

SIGNED, SEALED AND DELIVERED
in the presence of:

Market Regulation Services Inc.

"M. Jensen"

Per: _____

Witness

Maureen Jensen, Vice President
Eastern Region

Dated this 17th day of October 2005.

SIGNED, SEALED AND DELIVERED
in the presence of:

Investment Dealers Association of Canada

"A. Popovic"

Witness

Per:

Alex Popovic, Vice President
Enforcement