IN THE MATTER OF THE SECURITIES ACT
R.S.O. 1990, c. S.5, AS AMENDED

- and -

IN THE MATTER OF GORDON SCOTT PATERSON

SETTLEMENT AGREEMENT

I. INTRODUCTION

1. By Notice of Hearing dated December 17, 2001 (the "Notice of Hearing"), the Ontario Securities Commission (the "Commission") announced that it proposed to hold a hearing to consider whether, pursuant to sections 127(1) and 127.1 of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act"), it is in the public interest for the Commission:

   (a) to make an order approving the proposed settlement entered into between Staff of the Commission ("Staff") and the respondent, Gordon Scott Paterson ("Paterson") of this proceeding, which approval will be sought jointly by Staff and Paterson;

   (b) to make an order that the respondent Paterson be reprimanded; and

   (c) to make an order that the respondent Paterson pay costs to the Commission.

II. JOINT SETTLEMENT RECOMMENDATION

2. Staff agrees to recommend settlement of the proceeding initiated in respect of the respondent Paterson by the Notice of Hearing in accordance with the terms and conditions set out below. Paterson consents to the making of an order against him in the form attached as Schedule "A" on the basis of the facts set out below.

III. STATEMENT OF FACTS

ACKNOWLEDGEMENT

3. Solely for the purpose of this proceeding, Paterson agrees with the facts as set out in this Part III.

FACTS

YORKTON SECURITIES INC.

4. The conduct of Paterson that is the subject matter of this Settlement Agreement occurred prior to February 2001 (the “Material Time”).

5. Yorkton is registered as, among other things, a broker and investment dealer under the Act and is a member of, among other things, the Toronto Stock Exchange (the “TSE”) and the Investment Dealers Association of Canada (the "IDA"). Yorkton is an employee-owned firm with over 600 employees. Yorkton is a wholly-owned subsidiary of Yorkton Financial Inc. (“Yorkton Financial”).

6. Paterson was registered as a trading officer and the Chairman and Chief Executive Officer of Yorkton since October 1998, and President of Yorkton from May 20, 1997 to October 1, 1998. During the Material Time, Paterson owned approximately 15% of

Yorkton Financial. Paterson was registered as a trading officer with the title of Executive Vice-President and Director from May 16, 1995 to May 20, 1997.

7. Piergiorgio Donnini ("Donnini") was Yorkton's Head Institutional and Liability Trader, except for the period from September 1998 to April 1999, as indicated herein. Donnini's employment with Yorkton was terminated in April 2001. From November 14, 1995 to April 5, 2001, Donnini was registered as a sales representative with Yorkton, with the exception from September, 1998 to April, 1999 when Donnini was not employed with Yorkton.

8. Alkarim Jivraj (“Jivraj”) has been employed with Yorkton as an investment banker since 1996.

GTR GROUP INC.

9. GTR Group Inc. (“GTR”) was the continuing company formed through the reverse take-over (the “RTO”) by Games Trader Inc. (“GTI”) of the listed “shell” then known as Xencet Investments Inc. (“Xencet”) in October 1998 and the concurrent exchange of securities with shareholders of 1308129 Ontario Inc. ("1308129"). Effective September 5, 2001, GTR changed its name to Mad Catz Interactive Inc. During the Material Time GTR was a reporting issuer in British Columbia, Alberta and Ontario and its common shares were listed and posted for trading on the TSE under the symbol GTR.

10. During the Material Time GTR carried on business through two operating subsidiaries. Through the first of those subsidiaries (which carried on business under the name “Games Trader”), GTR was a supplier of video games to mass merchant and specialty retailers in the United States and Canada, with its principal business activity being the sourcing, refurbishing, repackaging and distribution of previously played video game software. Through the second of those subsidiaries, GTR designed, developed,

manufactured (through third parties) and marketed interactive video game control devices and accessories.

11. GTI was, until it was taken public through the RTO, a closely-held company that carried on the business later operated under the “Games Trader” name.

1. Investments by Yorkton Group in GTI

12. In March 1997, Capital Canada Limited (“CCL”) made a presentation to representatives of Yorkton concerning an opportunity to participate in the acquisition and financing of GTI. In this presentation, CCL expressed the view that individuals at Yorkton should acquire shares in GTI as a sign of their good faith.

13. In response to this presentation, ultimately Yorkton acquired 250,000 common shares, representing approximately 6% of the outstanding common shares of GTI. Yorkton then transferred those shares to the various persons and entities including Patstar Inc., a corporation owned by Paterson (collectively, the "Yorkton Group"). Patstar Inc. purchased 25,000 of these common shares for $25,000.

2. Yorkton/Paterson Relationship with Xencet

14. Xencet was incorporated in 1993 as a “junior capital pool” under the name Patch Ventures Inc. ("Patch") at the initiative of, among others, Paterson. In 1994, Patch acquired all of the issued and outstanding shares of Legacy Manufacturing Corporation pursuant to a reverse take-over, following which the name of the company was changed to Legacy Storage Systems International Inc. (“Legacy”). In 1995, Paterson joined the board of directors of Legacy and its shares were listed and posted for trading on the TSE. Paterson has since 1995 also been a shareholder of Legacy and its successor companies.

15. Since 1995, Yorkton has regularly acted as underwriter and financial advisor for Xencet and its predecessor companies and was also a security holder. In particular, Yorkton was the lead underwriter in respect of two special warrant offerings of Legacy completed in May 1995 and December 1995, and the lead underwriter in respect of the unit offering of Legacy completed in March 1996. Yorkton also acted as financial advisor to Legacy in connection with the acquisition by Legacy of shares and assets of Rexon Inc., completed in March 1996. Legacy subsequently changed its name to Tecmar Technologies International Inc. in December 1996. In January 1998, its name again was changed to Xencet Investments Inc. ("Xencet") in connection with the proposed sale of the last of its operating businesses. Paterson remained on the board of Xencet (and its predecessor companies as of August 1995) until his resignation from the board on September 30, 1998.

16. Upon completion of the sale of the last of Xencet's operating businesses, in mid-February 1998, Xencet had no significant operations. It held cash and cash equivalents in excess of $7.5 million. Its only other asset was a listing on the TSE. To preserve this listing, the TSE required that Xencet enter into a legally binding agreement by August 18, 1998 to acquire an operating business that, if completed, would result in Xencet meeting the original listing requirements of the TSE. Failing that, the shares of Xencet would be de-listed. This was publicly announced by Xencet. The board of directors of Xencet asked Paterson and other firms and individuals to search out business opportunities.

17. In mid-March 1998, notwithstanding that Xencet had no apparent need or use for additional cash, Paterson proposed to the two other directors of Xencet a transaction pursuant to which Paterson and certain other investors identified by him would acquire for $0.65 per unit approximately 1,150,000 units. Each unit was to consist of one common share in the capital of Xencet and one common share purchase warrant exercisable for $0.70 per share for a period of two years from the date of issue. On March 31, 1998, the closing price of the common shares of Xencet on the TSE was $0.70

per share. The board of directors first approved the Private Placement on March 27, 1998 with Paterson abstaining. The TSE approved the issuance of up to 50% of the Private Placement to Paterson.

18. The proposed private placement was announced by Xencet on April 30, 1998 (the "Xencet Private Placement"). The Xencet Private Placement closed in late May 1998 at which time 460,000 units were issued to Yorkton in trust for Paterson, and 690,000 units were issued to two Yorkton institutional clients.

19. Xencet's press release of April 30, 1998 did not disclose the identity of the subscribers to the Xencet Private Placement. Note 3 to the consolidated interim financial statements attached to the Press Release stated that Xencet had determined to undertake a private placement in part to a related party, but did not disclose the identity of the related party. Certain Yorkton personnel assisting with the RTO were not made aware that Paterson had participated in the Xencet Private Placement until such disclosure was made in the Xencet Information Circular dated August 26, 1998 in connection with the RTO. Paterson signed his subscription agreement in relation to the Xencet Private Placement on May 21, 1998 and filed his insider report on September 16, 1998, reporting his acquisition of 460,000 units of Xencet effective on May 22, 1998.

3. The RTO – Role of Yorkton's Officers and Investment Bankers

20. In March 1998, Paterson committed the services of certain Yorkton employees to the board of Xencet. In particular, Paterson committed employees of Yorkton to review possible merger or RTO candidates and to report the results of the review to the Xencet Board. As a director of Xencet, Paterson was informed of all business opportunities presented to the Xencet board, and the development of any proposed transaction. Although Paterson committed the services of certain Yorkton employees to help search out proposed business opportunities, Paterson did not cause Yorkton to enter into an

engagement agreement with Xencet. Xencet was not placed on the grey list (also referred to as a watch list) in March 1998. Yorkton did not place Xencet on its grey list until August 13, 1998.

21. Through 1997 and into early 1998, representatives of GTI met with Yorkton's Vice-President and Director of Investment Banking for the Media, Entertainment & Leisure Group and other Yorkton employees, other than Paterson, on various occasions to discuss the timing of an initial public offering of GTI and the company's financing requirements. As described below, in March 1998 and the months that followed Yorkton senior officers and investment bankers, other than Paterson, were acting as financial advisors to GTI.

22. On or about April 16, 1998, certain Yorkton senior officers and employees met with the President of GTI for a general business update on GTI. Yorkton's Vice-President and Director of Investment Banking for the Media, Entertainment & Leisure Group arranged for the GTI President to meet Paterson for the first time and give a presentation to Paterson on or about April 24, 1998.

23. After that presentation, Paterson advised representatives of GTI that it was Yorkton's view that, given GTI's recent operating results and financial condition, an initial public offering was not likely to be successfully completed until 1999 or later. Paterson indicated that he was aware, however, of a TSE-listed company that was looking for merger or acquisition candidates and that he would take the information provided by GTI and consider whether there could be a deal between GTI and that listed company. Shortly after this meeting, discussions ensued concerning a possible transaction, and the identity of Xencet was disclosed to GTI.

24. During April and May 1998, GTI was in discussions with Movies & Games 4 Sale, L.P. ("M4S"), a Dallas-based private limited partnership engaged in the same type of business as GTI, with respect to the possible combination of the businesses of GTI and M4S.

25. Paterson introduced GTI to the Board of Directors of Xencet on or about May 5, 1998.

26. In early May, 1998, Paterson, on behalf of Xencet and a representative of GTI, negotiated the proposed share exchange ratio in respect of the three businesses, such that Xencet, GTI and M4S were agreed to be valued as one-third interests of the proposed business combination, on a going forward basis for the purpose of further negotiations towards a definitive agreement on the RTO. This was prior to the first meeting between the GTI President and the Xencet President on May 13, 1998, which meeting was for an introductory purpose. The share exchange ratio agreed to by the parties was not publicly available.

27. On June 3, 1998, Xencet issued a press release announcing that it had entered into negotiations with unnamed parties, that discussions were at a preliminary stage, and that there was no assurance that the acquisition would be completed.

28. On or about June 12, 1998, it was determined that the proposed merger/RTO with M4S as a party to the transaction would not proceed, but that GTI and Xencet would continue RTO negotiations.

29. On or about June 16, 1998, Paterson, on behalf of Xencet, and representatives of GTI reached an agreement in respect of the share exchange ratio for the proposed RTO of GTI and Xencet. The parties agreed to a 50/50 share exchange ratio. The share exchange ratio agreed to by the parties was not publicly announced at this time. The parties continued to take further steps towards a definitive agreement on the RTO. On Friday,

June 19, 1998, Xencet and GTI also entered into a confidentiality agreement, and began to exchange information under that agreement on Monday, June 22, 1998.

30. In order to proceed with the proposed RTO, GTI also approached the shareholders of GTI and requested that the original shareholders (which included Patstar Inc.) purchase shares from the founder of GTI. On June 30, 1998, Paterson and two Yorkton senior officers purchased common shares of GTI. Paterson, through Patstar Inc., purchased 55,627 shares of GTI.

31. On July 31, 1998, Xencet and GTI entered into an acquisition agreement (the "Acquisition Agreement"), as amended and restated on August 20, 1998, providing for the acquisition of all the issued and outstanding common shares of GTI, pursuant to securities exchange agreements to be entered into with the holders of GTI common shares in exchange for units of Xencet comprised of common shares and a fractional number of common share purchase warrants, subject to approval by the shareholders of Xencet and other conditions, including successful completion of an equity financing.

32. The share ratio agreed to by Xencet and GTI, as reflected in the Acquisition Agreement, was as follows:

> "On the terms and subject to the conditions set out herein and in the Securities Exchange Agreement, the transactions contemplated by this Agreement shall be effected by the implementation of the following steps on the Closing Date:
>
> (a) Xencet shall acquire all of the GTI Securities from the GTI Securityholders in exchange for an aggregate of:
> (i) 10,300,000 Xencet Common Shares: and
>
> (ii) 1,000,000 Xencet Series A Warrants;
>
> (b) Peter Kozicz shall receive options to purchase 514,884 common shares of Xencet exercisable until April 7, 2000 for the Kozicz Options held by him, it being the intent that the options to be granted to Peter Kozicz will be granted at the market price of the common shares of Xencet, as agreed to

> with the TSE, and that the accrued gain in the Kozicz Options, being the excess of the exercise price per share of the options to be granted by Xencet to Peter Kozicz over $0.4017 (the "Excess Amount") will be treated as a pre-payment of a portion of the exercise price per share payable under such options equal to the Excess Amount per share of the options to be granted to Peter Kozicz, so that Peter Kozicz is in the same economic position as if he continued to hold the Kozicz Options, and the TSE shall have approved the issuance of such options on the foregoing terms on or before August 12, 1998."

The Acquisition Agreement and the terms contained therein were not then publicly available.

33. In mid-1998, Jivraj became aware that several senior Yorkton officers had recently purchased shares in GTI.

34. In mid-1998, Jivraj approached Paterson and proposed that Paterson sell to him common shares in GTI. Paterson agreed to sell a portion of his position in GTI.

35. On August 19, 1998, Jivraj, purchased 2,217 common shares of GTI from Patstar Inc. for $1,441.05.

36. The RTO transaction was publicly announced by Xencet on August 26, 1998, which announcement included disclosure of the share exchange ratio agreed to by Xencet and GTI, as reflected in the Acquisition Agreement, as amended and restated on August 20, 1998. The transaction was subject to approval by Xencet shareholders. The information circular dated August 26, 1998 sent to Xencet shareholders disclosed information related to Paterson's holdings in and involvement with Xencet and GTI under the heading "Conflict of Interest". The RTO was completed by October 30, 1998, and the name of the company was changed to GTR as of November 11, 1998. Following the RTO, the common shares of Xencet/GTR traded on the TSE at prices substantially above the price

at which the units were sold to Paterson and the two Yorkton institutional clients, pursuant to the Xencet Private Placement, and substantially above the price of the GTI shares purchased by Paterson and other Yorkton employees in the summer of 1998.

KASTEN CHASE APPLIED RESEARCH LIMITED

37. Kasten Chase Applied Research Limited ("KCA") is a corporation incorporated under the *Business Corporations Act* (Ontario). KCA develops and applies technology to provide secure remote access to computer networks. KCA was a privately held company up until 1994 at which time Yorkton structured the reverse take over by KCA of the reporting issuer known as Dysis Corp. KCA is a reporting issuer in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec. The common shares of KCA are listed and posted for trading on the TSE under the symbol KCA. Since 1994 Yorkton has acted as underwriter in respect of several financings and private placements for KCA.

1. First KCA Special Warrant Financing

38. In early February 2000, Yorkton and KCA engaged in discussions about a possible financing of KCA. On February 10, 2000, KCA sought "price protection" from the TSE for an offering of special warrants based on the $1.37 closing price of its common shares on February 9, 2000.

39. On February 11, 2000, KCA executed an engagement agreement with Yorkton under which KCA proposed to raise $5 million by issuing 4 million special warrants priced at $1.25 each (referred to as the "SWI"). Pursuant to subsections 619(a) and (b) and 622 of the TSE Company Manual, special warrants exchangeable into listed common shares may be issued at a discount to the closing price of the common shares on the TSE on the day before the date on which price protection is sought. Each special warrant was to

entitle the holder to acquire one common share of KCA and one warrant to acquire one-half of one common share at an exercise price equal to $1.75 per common share.

40. Pursuant to the engagement agreement, Yorkton was entitled to receive an underwriter's commission equal to 8% of the gross proceeds of the offering (or $400,000 in cash commission) and compensation options to acquire 400,000 units at an exercise price of $1.37 per unit. Each unit was to be exchangeable for one common share of KCA and one warrant to acquire one-half of one common share at an exercise price equal to $1.75 per common share. Yorkton did not own freely tradeable shares of KCA at this time.

41. The arrangements between Yorkton and KCA set out in the engagement agreement were confirmed in an underwriting agreement dated February 24, 2000. The financing closed on February 24, 2000.

2. Subscriptions For First KCA Special Warrants

42. During the pre-marketing of SWI, Yorkton's institutional clients expressed a greater demand for the purchase of SWI units than the proposed 4 million units. These clients were prepared to purchase close to 6.5 million KCA units.

43. Accordingly, on February 11, 2000, Yorkton received sufficient orders to purchase the special warrants that resulted in the offering being oversubscribed.

3. Yorkton's Borrowing and Short Sales[1] in KCA Common Shares

44. Commencing on or about February 15, 2000, with the knowledge and approval of Paterson, Donnini began executing short sales of common shares of KCA for Yorkton's own account.

45. On or about February 17, 2000, Donnini, on behalf of Yorkton, began to borrow KCA common shares from various registered dealers. Between February 15, 2000 and February 28, 2000, Yorkton sold short for its own account approximately 355,000 common shares of KCA. These transactions were transparent to the market as Donnini traded from Yorkton's inventory account.

46. The short sales carried out prior to February 29, 2000, were effected as part of a strategy to lock in Yorkton's profits in relation to compensation options and special warrants from SWI, which could not be freely traded.

4. Second KCA Special Warrant Financing Proposal

47. On February 29, 2000, Paterson presented a financing proposal to the Chief Financial Officer of KCA. Paterson then informed Donnini on February 29, 2000 that the proposed second KCA financing was a $10 million special warrant offering at $6.75 per special warrant, and was to have a structure similar to the SWI financing. The information provided by Paterson to Donnini was not publicly available. Paterson did not instruct or direct Donnini to cease his short selling of KCA common shares on February 29, 2000.

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[1] A short sale is the sale of a security which the seller does not own. This is a speculative practice done in the belief that the price of a stock is going to fall and the seller will then be able to cover the sale by buying it back later at a lower price, thereby making a profit on the transactions. (Source: Canadian Securities Course Textbook Volume 3, September 1998, prepared and published by the Canadian Securities Institute).

Paterson did not inform Yorkton's compliance department that KCA be placed on the grey list commencing on February 29, 2000.

48. Following receipt of information from Paterson, as described above, Donnini traded in common shares of KCA for Yorkton's account through jitney [2] trades. By the close of business on February 29, 2000, Donnini had sold short for Yorkton's account 579,000 common shares of KCA.

49. On the morning of March 1, 2000, the CFO of KCA continued to negotiate by telephone the terms of the special warrant offering with Paterson who was in Montreal, and by mid-day, KCA had reached an agreement in principle with Yorkton in relation to the following terms of the second warrant financing (subject to board approval of KCA and negotiation of the engagement letter with Yorkton):

- the pricing of the special warrants II offering;
- the size of the special warrants II offering (including the common share purchase warrants and the exercise period and exercise price of the warrants);
- the Commission to be paid to Yorkton in respect of the special warrants II offering, and the number, exercise price and exercise period of the compensation warrants to be issued to Yorkton in respect of the underwriting.

50. On March 1, 2000 KCA sought price protection from the TSE for an offering of special warrants at $6.75 per special warrant based on the $6.90 closing price of KCA's common shares on February 29, 2000.

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[2] Jitney: The execution and clearing of orders by one member of a stock exchange for the account of another member. (Source: Canadian Securities Course Textbook Volume 3, September 1998, prepared and published by the Canadian Securities Institute).

51. At the close of the day on March 1, 2000, the board of directors of KCA approved the second special warrant financing.

52. On March 1, 2000, Yorkton sold short for its own account a further 440,200 common shares of KCA, of which over 400,000 shares were jitneyed through another investment dealer, which had the effect of concealing Yorkton's involvement in the trade. Paterson did not take steps to restrict Donnini's trading in KCA common shares on February 29, 2000 or March 1, 2000. All of the short sales from February 29 and March 1 were made at prices in excess of the $6.75 price for the KCA SW2 warrants. By the close of trading on the TSE on March 1, 2000, Yorkton had sold short approximately 1,375,000 common shares of KCA.

53. Yorkton's "bought deal" committee approved Yorkton's participation in the second special warrants financing at about 8:00 a.m. on March 2, 2000. KCA and Yorkton then executed an engagement agreement pursuant to which KCA agreed to raise, and Yorkton agreed to underwrite, $10 million by issuing 1.483 million special warrants priced at $6.75 each. Each special warrant was to entitle the holder to acquire one common share of KCA and one warrant to acquire one-half of one common share at an exercise price equal to $7.75 per common share.

54. Pursuant to the engagement agreement, Yorkton was entitled to receive an underwriter’s commission equal to 8% of the gross proceeds of the offering and compensation options to acquire 148,399 units at an exercise price of $6.90 per unit. Each unit was to be exchangeable for one common share of KCA and one warrant to acquire one-half of one common share at an exercise price equal to $7.75 per common share.

55. After Yorkton's "bought deal" committee approved the financing, KCA was placed on Yorkton's "restricted list", which was distributed by e-mail shortly before markets opened on March 2, 2000.

56. The arrangements between Yorkton and KCA set out in the engagement agreement were formalized in an underwriting agreement dated March 15, 2000. The financing closed on March 15, 2000.

57. Yorkton's retail salespersons advised Yorkton's syndication department that they had received indications of interest from sophisticated retail clients in purchasing a total of 609,500 special warrants. Retail sales were allocated 431,000 of the 1.483 million special warrants that were to be distributed. Except for some hedge fund clients, Yorkton's institutional clients were not interested in purchasing KCA units in the second warrant financing. Yorkton purchased, as principal, the remaining 650,000 special warrants at a price of $4,387,500, with the result that fewer special warrants were allocated to sophisticated retail clients.

BOOK4GOLF.COM CORPORATION

58. Book4golf.com Corporation ("Book4golf") has since September 22, 1999 been incorporated pursuant to the *Canada Business Corporations Act*. Book4golf is the developer and owner of Book4golf.com, an e-commerce Web portal that allows golfers to book tee times at various types of golf courses over the Internet. Book4golf is a reporting issuer in British Columbia and Ontario. The common shares of Book4golf are listed and posted for trading on the Canadian Venture Exchange ("CDNX") under the symbol BFG.

Book4golf off CDNX TRADE

59. Paterson and Yorkton played a major role in the affairs of Somerville Capital Inc. ("Somerville"), a junior capital pool ("JCP") company, and they continued to play a major role after the RTO transaction that transformed the JCP into Book4golf. Yorkton acted as underwriter and financial advisor. Paterson and other Yorkton employees were

shareholders and Paterson publicly supported Book4golf. Yorkton provided research coverage on Book4golf and the Director of Research reported directly to Paterson. Yorkton was the dominant trading member firm in Book4golf shares.

60. On January 24, 2000, Book4golf opened at a price of $17.30, reached a high of $18.05 and a low of $14.00, and closed at $15.85. The following day Book4golf opened at a price of $17.00.

61. On January 24, 2000, a U.S. client of Yorkton's Chicago office wished to sell 100,000 shares of Book4golf. The Chicago office relayed the information to Donnini, the Head of Institutional Trading in Yorkton's Toronto office. Donnini approached Paterson and together they decided to offer a bid price of $13.75 per share, a 25¢ discount to the lowest transaction price on that date. Of the 100,000 Book4golf shares, Donnini purchased 25,000 Book4golf shares in his personal account and Paterson purchased the remaining 75,000 Book4golf shares through the account of his personal holding company.

62. Donnini did not report the 100,000 sale of the Book4golf shares to CDNX. The transactions were only recorded on the books and records of Yorkton on January 25, 2000 "as of January 24, 2000". The size and nature of this transaction would have depressed the market price of Book4golf if it had been placed through the facilities of the CDNX.

63. Donnini reported directly to Paterson.

64. Paterson actively traded Book4golf shares on January 24, 2000 prior to buying the 75,000 Book4golf shares.

65. From January 26, 2000 to February 18, 2000, Paterson sold 75,000 shares of Book4golf at prices ranging from $16.00 to $23.25. On a “last in, first out” basis, he made a pre-tax profit of over $400,000.

66. The position of Paterson in Book4golf is stated in the Book4golf prospectus dated December 21, 2000 as follows:

> Mr. Paterson has invested an aggregate amount of $3,120,590 in cash, directly and indirectly through his spouse, a family trust, an RRSP and a personal holding corporation, in Common Shares and Common Share purchase warrants of the Company. Based on the closing market price of the Common shares as at December 20, 2000, Mr. Paterson has aggregate realized and unrealized losses (before income taxes) of $1,048,110 in respect of all of his direct and indirect investments in Book4golf.com including proceeds from all dispositions.

67. Donnini and Yorkton were sanctioned by the CDNX for failing to report the transaction involving the 100,000 shares of Book4golf. The settlement agreement was approved on June 4, 2001 by the Disciplinary Hearing Panel of CDNX.

STORAGE ONE INC.

1. Establishment of Storage One

68. Storage One Inc. ("Storage One") was incorporated under the *Business Corporations Act* (Ontario) as Storage Express Inc. on October 18, 1993 as a subsidiary of Tecmar Technologies Incorporated ("Tecmar"). Storage Express Inc. changed its name to Storage One effective November 10, 1993 and to EcomPark Inc. effective May 19, 1999.

69. Tecmar was a wholly owned subsidiary of Tecmar Technologies International Inc. As noted above in paragraph 15, Tecmar Technologies International Inc. was formerly

Legacy Storage Systems International Inc. Paterson was a shareholder of Legacy Storage Systems International Inc. (and the successor companies, including Xencet) from 1995 to date, and a director of Legacy Systems International Inc. (and its successor companies) from 1995 until his resignation from the Xencet board on September 30, 1998.

70. Storage One did not carry on active business until April 14, 1997, when it acquired certain inventory, fixed assets, prepaid expenses and goodwill of the computer storage hardware business carried on by Tecmar. On the advice of Paterson to the board of Tecmar Technologies International Inc., Storage One became a separate company in April, 1997.

71. Effective August, 1997, Storage One became a reporting issuer in British Columbia, Alberta and Ontario. Effective October, 1997, the common shares of Storage One were listed and posted for trading on the Alberta Stock Exchange (as it then was) under the symbol SOJ.

2. August 18, 1997 Prospectus

72. Pursuant to a prospectus dated August 18, 1997, Storage One made an initial public offering (the August "IPO") by which it raised $800,000 by offering 3,200,000 units consisting of a common share and common share purchase warrant. The same prospectus qualified for distribution common shares and warrants issuable upon the exercise of special warrants issued in April 1997 for proceeds of $2,893,500. These investments were described in the prospectus as speculative and involving a high degree of risk.

73. As described in the prospectus under the heading "Management of Storage", each of the four managers of Storage One identified in the prospectus had held management positions with Tecmar or with its computer storage hardware business before that

business was acquired by Storage One. Under the heading "Risk Factors", the prospectus stated that Storage One was substantially dependent on the services of a few key personnel, including three of the four managers identified in the prospectus. The prospectus disclosed no concerns about the quality or abilities of management.

74. The financing agreement dated April 14, 1997 between Storage One and Yorkton relating to the offering of the special warrants of Storage One (the "April Private Placement"), required Storage One to deposit into a segregated bank account the majority of the proceeds of that financing and the net proceeds of the sale of units later issued under the prospectus. These funds could be released only with the consent of two Yorkton nominees.

75. In connection with the April Private Placement, in Paterson's view these restrictions were required because Paterson had concerns in relation to management's use of funds, and management's ability to manage its cash. Paterson assumed the lead role in respect of Yorkton's underwriting of the April Private Placement and purchased $150,000 of special warrants.

76. These restrictions remained in place at the time of the August IPO, and are disclosed in the prospectus as follows:

> "Pursuant to the Underwriting Agreement, the Corporation agreed to deposit the net proceeds from the offering of Special Warrants in excess of $1,700,000, as well as the net proceeds from this Offering and from the exercise of the Warrants, the New Warrants and the Compensation Options into a segregated bank account of the Subsidiary that requires two signing officers, both of whom are nominees of Yorkton. As long as any funds remain in this bank account of the Subsidiary, the Corporation has also agreed: (i) other than certain existing liens, not to create or permit any lien, claim, security interest or other encumbrance whatsoever against or in respect of the Subsidiary; (ii) to ensure a majority of the board of directors of the Subsidiary are nominees of Yorkton; and (iii) to ensure the

> Subsidiary does not conduct any active business without the consent of Yorkton. The purpose of the funds deposited to the bank account of the Subsidiary is to identify and pursue future acquisition and expansion opportunities".

77. Paterson's knowledge, information and belief in respect of the management of Storage One, giving rise to the imposition and continuation of these restrictions, was not disclosed in the Storage One prospectus.

3. Paterson's Views About Management

78. In the course of a voluntary interview by staff of the CDNX held on June 6, 2000, Paterson stated that in 1997 he had serious concerns about management of Storage One and about management's use of funds when employed by Tecmar. Paterson told the CDNX that the restrictions on the proceeds of the 1997 financings were adopted for this reason. Paterson did not share these views with the Yorkton prospectus due diligence team.

79. Paterson's views concerning management of Storage One were conveyed to CDNX as follows:

- "We like to have people, particularly if we have any concerns about management, and in that case, we did, we like to have people from time to time that are there, that can keep the people involved in the file up to speed and, you know, highlight particular things that are going the wrong way";

- "I mean, our biggest concern with these guys, Killins and Sjaholm, nice guys, honest guys. Meanwhile, good plan, but it failed miserably in the previous company and we had raised, as a firm, 66 million dollars for the predecessor company, and it was humiliating for us, because it had virtually all been lost and the stock had been rolled back one for ten, and so this was kind of a last lifeblood";

- "We weren't going to let those guys squander the money like they'd squandered the 66 million";
- "You guys have blown up the previous company and…";
- "These guys had presented a business plan. We liked a lot, the prospects of what Storage One could do as a potential. We were concerned about the guys, and so we raised more money for them and did the public offering, and if they blew through the money, we weren't going to let them blow it all and take the thing to zero";
- "It was only in place because these guys had failed miserably before and we weren't prepared to let those two managers, if they failed again, use that money and squander it further".

CONDUCT CONTRARY TO THE PUBLIC INTEREST

GTI and Xencet RTO

80. Paterson's conduct in relation to the GTI and Xencet RTO was contrary to the public interest by reason of the following:

(a) Paterson played multiple roles as a director and shareholder of Xencet, as a shareholder of GTI, and as a registrant and President of Yorkton;

(b) Paterson initiated a private placement by Xencet in advance of the transaction required to meet the TSE listing requirements when Xencet had no apparent need for additional cash;

(c) Paterson caused the private placement, which was not underwritten by Yorkton, to be made available only to Paterson and two institutional clients and not to other Yorkton clients;

(d) Paterson closed the purchase of units of Xencet on May 22, 1998, having knowledge of undisclosed information in respect of the proposed RTO;

(e) Paterson purchased common shares of GTI on June 30, 1998, having knowledge of undisclosed information in respect of the proposed RTO;

(f) Paterson sold GTI shares to Jivraj on or about August 19, 1998 where, by reason of the foregoing, Paterson should not have done so. Paterson should have directed Jivraj not to purchase shares in GTI from Yorkton or any other person.

Kasten Chase

81. Paterson's conduct in relation to the second KCA financing was conduct contrary to the public interest by reason of the following:

(a) Paterson provided to Donnini undisclosed information in relation to the price and size of the proposed KCA second financing on February 29, 2000, and failed to direct or instruct Donnini to cease trading in KCA common shares commencing on February 29, 2000. Paterson further failed to notify Yorkton's compliance department that KCA be placed on the grey list commencing on February 29, 2000, having regard to the status of the negotiations between Yorkton and KCA in relation to the proposed KCA second financing.

Book4golf

82. Having regard to Paterson's multiple roles with Yorkton and Book4golf, and in relation to the purchase by Paterson of 75,000 shares of Book4golf on January 24, 2000, Paterson failed to employ prudent business practices in respect of real or potential conflicts of interest regarding his personal trading, by reason of the following:

(a) Paterson, as Donnini's supervisor**,** is accountable for Donnini's failure to have properly reported a transaction from which Paterson personally profited;

(b) Paterson knew or ought to have known that the Book4golf transaction had not been reported to the CDNX in light of other trades in Book4golf that Paterson made on January 24, 2000; and

(c) as the then CEO of Yorkton, Paterson failed to ensure the appearance of fair and equitable trading, having regard to the involvement of Paterson and Yorkton in publicly supporting Book4golf and having regard to the profit made by Paterson from this transaction.

Storage One

83. Paterson's conduct was contrary to the public interest in that he failed to disclose to the Yorkton due diligence team his knowledge, information and belief relating to the quality and ability of management of Storage One. As a result of this failure, Paterson's knowledge, information and belief relating to the quality and ability of management of Storage One was not disclosed in the Storage One prospectus.

IV. POSITION OF PATERSON

84. In March 2000, Paterson initiated the hiring of Alan M. Schwartz as President of Yorkton Proprietary Assets Management Inc., a wholly owned subsidiary of Yorkton. In February 2001 Paterson and Yorkton's Executive Committee approved a change of Mr. Schwartz's duties, and requested that Mr. Schwartz, in his capacity as a director of Yorkton Financial Inc., monitor the regulatory, compliance and legal functions of Yorkton and coordinate Yorkton's response to the ongoing regulatory investigations.

Paterson and Yorkton's Executive Committee endorsed a plan for Yorkton to move to adopt best practices in the area of regulatory compliance. Numerous steps have been taken in this regard.

85. Paterson has represented to Staff that he has not sold any shares of Book4golf since February 18, 2000, except that on December 29, 2000 Patstar Inc. sold and Paterson purchased 48,000 Book4golf shares at approximately the same price.

V. TERMS OF SETTLEMENT

86. Paterson agrees to the following terms of settlement:

(a) at the time of approval of this settlement agreement, Paterson will make a voluntary payment to the Commission in the amount of $1,000,000, such payment to be allocated to such third parties as the Commission may determine for purposes that will benefit Ontario investors. Paterson agrees that he is fully responsible for the voluntary payment in the amount of $1,000,000;

(b) that the Commission make an Order pursuant to clause 1 of subsection 127(1) of the Act, suspending the registration of Paterson for a period of two years effective the date of the Order of the Commission approving this Settlement Agreement;

(c) Paterson agrees that effective the date of the Order of the Commission approving this Settlement Agreement, Paterson will not be an officer or director of a registrant, for a period of two years from the date of the Commission's Order;

(d) Paterson agrees that effective the date of the Order of the Commission approving this Settlement Agreement, Paterson will not own directly or indirectly any interest in a registrant for a period of two years from the date of the Commission's

Order, with the exception of Paterson's current interest in Yorkton. Paterson undertakes to take necessary and reasonable steps to sell all or a portion of his current interest in Yorkton. During the time in which Paterson owns any interest in Yorkton, for the two year period effective from the date of the Order of the Commission approving this Settlement Agreement, Paterson agrees not to exercise voting rights, control or otherwise influence or attempt to influence management of Yorkton or the affairs of Yorkton, except as may result from the aforesaid sale of his current interest. Paterson further agrees not to purchase any additional shares of Yorkton for a period of two years from the date of the Order of the Commission approving this Settlement Agreement;

(e) that the Commission make an Order pursuant to clause 2 of subsection 127(1) of the Act, effective 45 days from the date of the Order, that Paterson is prohibited from trading in securities for a period of six months, with the exception of any sale by Paterson of Paterson's current interest in Yorkton;

(f) that the Commission make an Order under subsection 127(1)(6) of the Act that Paterson be reprimanded; and

(g) that the Commission make an Order under subsection 127.1(1)(b) of the Act that Paterson make payment to the Commission in the amount of $100,000 in respect of the costs of the Commission's investigation in relation to this proceeding, such payment to be made at the time of approval of this settlement. Paterson agrees that he is fully responsible for the payment in the amount of $100,000 for costs.

VI. CONSENT

87. Paterson hereby consents to an Order of the Commission incorporating the provisions of Part V above in the form of an order attached as Schedule "A".

VII. STAFF COMMITMENT

88. If this settlement is approved by the Commission, Staff will not initiate any other proceeding under the *Securities Act*, R.S.O. 1990, c. S.5 against Paterson respecting the facts set out in Part III of this Settlement Agreement, and any other matter which has come to the attention of Staff in relation to Staff's investigation of the conduct of Paterson up to the date of this Settlement Agreement, except in relation to any matter if Staff concludes that any information provided by Paterson to Staff in relation to Staff's investigation of such matter is not accurate.

89. If Paterson reapplies for registration with the Commission at any time after 2 years from the date of the Order of the Commission approving this Settlement Agreement, Staff will not oppose Paterson's application for registration by reason only of the facts set out in this Settlement Agreement and/or the Commission's Order resulting from this Settlement Agreement.

VIII. APPROVAL OF SETTLEMENT

90. Approval of the settlement set out in this Settlement Agreement shall be sought at the public hearing of the Commission scheduled for December 19, 2001, or such other date as may be agreed to by Staff and Paterson (the "Settlement Hearing").

91. Counsel for Staff or and counsel for Paterson may refer to any part, or all, of this Settlement Agreement at the Settlement Hearing. Staff and Paterson agree that this Settlement Agreement will constitute the entirety of the evidence to be submitted at the Settlement Hearing.

92. If this settlement is approved by the Commission, Paterson agrees to waive his rights to a full hearing, judicial review or appeal of the matter under the Act.

93. Staff and Paterson agree that if this settlement is approved by the Commission, they will not make any public statement inconsistent with this Settlement Agreement.

94. If, for any reason whatsoever, this settlement is not approved by the Commission, or an order in the form attached as Schedule "A" is not made by the Commission;

(a) this Settlement Agreement and its terms, including all discussions and negotiations between Staff and Paterson leading up to its presentation at the Settlement Hearing, shall be without prejudice to Staff and Paterson;

(b) Staff and Paterson shall be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations in the Notice of Hearing and Statement of Allegations of Staff, unaffected by this Settlement Agreement or the settlement discussions/negotiations;

(c) the terms of this Settlement Agreement will not be referred to in any subsequent proceeding, or disclosed to any person except with the written consent of Staff and Paterson , or as may be required by law; and

(d) Paterson agrees that he will not, in any proceeding, refer to or rely upon this Settlement Agreement, the settlement discussions/negotiations or the process of approval of this Settlement Agreement as the basis of any attack on the Commission's jurisdiction, alleged bias or appearance of bias, alleged unfairness or any other remedies or challenges that may otherwise be available.

IX. DISCLOSURE OF AGREEMENT

95. Except as permitted under paragraph 94 above, this Settlement Agreement and its terms will be treated as confidential by Staff and Paterson until approved by the Commission, and forever if, for any reason whatsoever, this settlement is not approved by the Commission, except with the written consent of Staff and Paterson, or as may be required by law.

96. Any obligations of confidentiality shall terminate upon approval of this settlement by the Commission.

XI. EXECUTION OF SETTLEMENT AGREEMENT

97. This Settlement Agreement may be signed in one or more counterparts which together shall constitute a binding agreement.

98. A facsimile copy of any signature shall be as effective as an original signature.

DATED this 17th day of December, 2001.

Witness	**GORDON SCOTT PATERSON**

DATED this 17th day of December, 2001.

STAFF OF THE
ONTARIO SECURITIES COMMISSION

(Per)_____

Michael Watson
Director, Enforcement Branch

Schedule "A"

IN THE MATTER OF THE SECURITIES ACT
R.S.O. 1990, c. S.5, as amended

- and -

IN THE MATTER OF GORDON SCOTT PATERSON

ORDER

WHEREAS on December 17, 2001, the Ontario Securities Commission (the "Commission") issued a Notice of Hearing pursuant to sections 127(1) and 127.1 of the *Securities Act*, R.S.O. 1990 c. S.5, as amended (the "Act") in respect of Gordon Scott Paterson ("Paterson");

AND WHEREAS Paterson entered into a settlement agreement dated December 17, 2001 (the "Settlement Agreement") in which he agreed to a proposed settlement of the proceeding, subject to the approval of the Commission.

AND UPON reviewing the Settlement Agreement and the Statement of Allegations of Staff of the Commission ("Staff"), and upon hearing submissions from counsel for Paterson and from Staff;

AND WHEREAS the Commission is of the opinion that it is in the public interest to make this Order;

IT IS HEREBY ORDERED THAT:

1. the Settlement Agreement dated December 17, 2001, attached to this Order, is hereby approved;

2. pursuant to clause 1 of subsection 127(1) of the Act, effective the date of this Order, the registration of Paterson is suspended for a period of two years from the date of this Order;

3. pursuant to clause 2 of subsection 127(1) of the Act, effective 45 days from the date of this Order, Paterson is prohibited from trading in securities for a period of six months from the date of this Order, with the exception of any sale by Paterson of Paterson's current interest in Yorkton;

4. pursuant to subsection 127(1)(6) of the Act, Paterson is hereby reprimanded; and

5. pursuant to subsection 127.1 of the Act, at the time of approval of this settlement, Paterson is ordered to pay $100,000 to the Commission in respect of a portion of the Commission's costs with respect to this matter.

DATED at Toronto this 19th day of December, 2001.

_____ _____

_____

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