

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

- AND -

**IN THE MATTER OF  
LYDIA DIAMOND EXPLORATION OF CANADA LTD.,  
JURGEN VON ANHALT, EMILIA VON ANHALT**

**ORDER  
(Sections 127 and 127.1)**

**WHEREAS** on April 1, 2002, the Ontario Securities Commission (the Commission) issued a Notice of Hearing pursuant to sections 127 and 127.1 of the *Securities Act* (the *Act*) in respect of Lydia Diamond Exploration of Canada Ltd. (Lydia), Jurgen von Anhalt, and Emilia von Anhalt;

**AND WHEREAS** the Commission conducted a hearing into this matter on June 28, July 3-5, September 18-20, October 10-11 and 15-16, and November 4, 2002;

**AND WHEREAS** the Commission is satisfied that Lydia, Jurgen von Anhalt and Emilia von Anhalt have not complied with Ontario securities law and have not acted in the public interest;

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

**IT IS ORDERED THAT:**

**Lydia**

- (1) Pursuant to clause 2 of subsection 127(1) of the *Act*, except as permitted in A, B and C below, trading in any securities of Lydia by Lydia cease for three years from the date of this order:
  - A. Lydia may issue securities to Jurgen von Anhalt, Emilia von Anhalt, any bank, trust company, loan company, insurance company, or any other entity with assets of at least \$100 million, if condition (7) is met.
  - B. Lydia may issue securities under a prospectus that is filed and receipted under the *Act*, if conditions (7) and (8) are met.
  - C. Lydia may issue securities under an exemption from the prospectus requirements of the *Act*, if conditions (7), (8) and (9) are met.

(2) Pursuant to clause 6 of subsection 127(1) of the *Act*, Lydia is reprimanded.

**Jurgen von Anhalt and Emilia von Anhalt**

(3) Pursuant to clause 2 of subsection 127(1) of the *Act*, except as permitted in A and B below, trading by each of Jurgen von Anhalt and Emilia von Anhalt in any securities of any issuer - other than a government, an agency of a government, or a corporation with share capital in excess of \$100 million at the time of acquisition of the security by Jurgen von Anhalt or Emilia von Anhalt - cease for 12 years from the date of this order:

A. Jurgen von Anhalt and Emilia von Anhalt may sell securities of Lydia under a prospectus that is filed and receipted under the *Act*, if conditions (7) and (8) are met.

B. Jurgen von Anhalt and Emilia von Anhalt may sell securities of Lydia under an exemption from the prospectus requirements of the *Act*, to a person:

1. who is acquiring all the securities of Lydia owned by Jurgen von Anhalt and Emilia von Anhalt, alone or together; or
2. who is acquiring securities of Lydia from Jurgen von Anhalt or Emilia von Anhalt, or both of them, for an aggregate purchase price of at least \$500,000;

if condition (7) is met.

C. Notwithstanding the limitation in (3), Jurgen von Anhalt and Emilia von Anhalt may sell securities of any issuer, other than Lydia, held on the date of this order which are made within 60 days after this date.

(4) Pursuant to clause 7 of subsection 127(1) of the *Act*, each of Jurgen von Anhalt and Emilia von Anhalt resign all positions that he or she holds as a director or officer of any issuer.

(5) Pursuant to clause 8 of subsection 127(1) of the *Act*, each of Jurgen von Anhalt and Emilia von Anhalt is prohibited from becoming or acting as a director or officer of any issuer for 15 years from the date of this order.

(6) Pursuant to clause 6 of subsection 127(1) of the *Act*, each of Jurgen von Anhalt and Emilia von Anhalt is reprimanded.

**Conditions**

The following are the conditions referred to in this order:

(7) Condition (7):

From the day after this order to the time of a trade:

- A. neither of Jurgen von Anhalt and Emilia von Anhalt:
  - 1. is a director, officer, employee, agent or paid consultant of Lydia or of any associate or affiliate of Lydia or of any corporation, partnership, joint venturer or other entity that has a business relationship with Lydia or an associate or affiliate of Lydia;
  - 2. acts as a director or officer of Lydia; or
  - 3. attends directors meetings of Lydia;
- B. a majority of the directors of Lydia are independent from Jurgen von Anhalt and Emilia von Anhalt; and,
- C. the business and affairs of Lydia are managed, or the management thereof is supervised, exclusively by a committee of directors of Lydia all of whom are independent from Jurgen von Anhalt and Emilia von Anhalt.

(8) Condition (8):

- A. Lydia has obtained a report of an independent forensic accountant not associated with Mintz & Partners containing recommendations for adjustments, if any, to the financial statements of Lydia for all completed fiscal years of Lydia. The report should address, but not be limited to, the following:
  - 1. with respect to expenses incurred by Jurgen von Anhalt or Emilia von Anhalt and allowed as corporate expenses or reflected in the shareholders' advance (loan) or cash clearing account: the reasonableness of amounts of expenses claimed; the validity of expenses, or the portions thereof, allowed as being for proper corporate purposes; the satisfactory nature of documentation (or other independent verification) proving payment of the expenses to the suppliers;
  - 2. with respect to investors' moneys paid for share subscriptions: the receipt by Lydia of such funds and the proper application by or for Lydia of such funds to proper obligations of Lydia;

3. the current balance of amounts owing, if any, by Jurgen von Anhalt and/or Emilia von Anhalt to Lydia or by Lydia to Jurgen von Anhalt and/or Emilia von Anhalt; and,
4. adjustments, if any, required to the financial statements of Lydia, to reflect properly the matters arising from the foregoing, including adjustments, if any, to the shareholders' advance (loan) or cash clearing account, the net income (deficit), and the assets accounts of Lydia for any fiscal period.

In this regard, items for examination by the forensic accountant should include, but not be limited to: (a) amounts recorded as travel and entertainment expenses of Lydia incurred by Jurgen von Anhalt and/or Emilia von Anhalt during the pre-incorporation period; (b) amounts recorded throughout as expenses of Lydia incurred by Jurgen von Anhalt and/or Emilia von Anhalt with respect to travel, accommodation and car rental; (c) the proportion of expenses, such as rent, incurred by Jurgen von Anhalt and/or Emilia von Anhalt which was attributed to business purposes; (d) charges to Lydia's bank accounts and visa accounts incurred by Jurgen von Anhalt and/or Emilia von Anhalt for non-business (personal) expenses; and (e) investors' subscription moneys, if any, not paid to or for the account of Lydia.

- B. The directors of Lydia cause the financial statements to be restated, if required, in light of the report.
- C. The report and any restated financial statements are filed with the Commission.

(9) Condition (9):

Any trade permitted by (1)C may only be made if, in addition to the requirements of the *Act* and Rule 45-501, before entering into an agreement of purchase and sale, Lydia causes to be delivered to the prospective purchaser an offering memorandum that:

- A. contains sufficient information that the investor can form a reasoned decision with regard to its investment in Lydia;
- B. attaches Lydia's audited financial statements for all fiscal years, as restated if required in light of the report of the independent forensic accountant;

- C. is accompanied by each material change report of Lydia filed since the date of the offering memorandum;
- D. is accompanied by the interim financial statements for Lydia's most recently completed financial period for which Lydia prepares interim financial statements that are required to be filed; and
- E. describes Lydia's corporate governance practices and the circumstances under which they were put in place in 2002, and any subsequent changes.

**Costs**

- (10) Pursuant to section 127.1 of the *Act*, Lydia pay \$25,000, Jurgen von Anhalt pay \$100,000 and Emilia von Anhalt pay \$100,000 of the costs of the Commission of, or related to, the hearing in this matter.

DATED at Toronto this 19<sup>th</sup> day of November, 2002.

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Paul M. Moore

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Mary Theresa McLeod

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H. Lorne Morphy