

THE SECURITIES ACT) **Order No. 5438**
)
Subsections 8(1) and 148.1(1)) **August 8, 2007**

LION RIDGE CAPITAL MANAGEMENT INC.

WHEREAS:

(A) On August 7, 2007, The Manitoba Securities Commission (the "Commission") issued a Notice of Hearing (the "Notice") giving notice of its intention to hold a hearing (the "Hearing") to consider whether or not it was in the public interest to grant an order pursuant to subsections 8(1) and 148.1(1) of The Securities Act (the "Act") with respect to Lionridge Capital Management Inc. ("Lionridge");

(B) Staff of the Commission and Lionridge entered into a Settlement Agreement (a copy of which is attached as Schedule "A") dated August 7, 2007 (the "Settlement Agreement"), which proposed settlement of the proceedings initiated by the Notice, subject to the approval of the Commission;

(C) Lionridge has consented to the issuance of this Order and has waived its rights to a full hearing;

(D) The Commission has reviewed the Settlement Agreement and is of the opinion that it is in the public interest to make this Order.

IT IS ORDERED:

1. **THAT** the Settlement Agreement, Schedule "A", be and the same is hereby approved.
2. **THAT** a written reprimand will be placed on Lionridge's registration file relating to the matters set out in this Settlement Agreement;
3. **THAT** under s. 148.1(1) of the Act Lionridge be assessed an administrative penalty in the amount of \$10,000 payable on or before December 31, 2007;

4. **THAT** Lionridge will make a contribution to costs of the investigation in the sum of \$5,000 payable to the Commission on or before October 1, 2007.

5. **THAT** Lionridge is required to secure an immediate \$10,000 payment to be made to the company, for use in the maintenance of working capital requirements at an amount that is \$10,000 in excess of the minimum working capital requirements. These funds are to be segregated from the general accounts of the company, until the Director otherwise directs.

BY ORDER OF THE COMMISSION

Director, Legal and Enforcement

**SETTLEMENT AGREEMENT
LIONRIDGE CAPITAL MANAGEMENT INC.**

AND

STAFF OF THE MANITOBA SECURITIES COMMISSION

The Manitoba Securities Commission

500 — 400 St. Mary Avenue

Winnipeg, Manitoba

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SETTLEMENT AGREEMENT

A. INTRODUCTION

A1. Staff of the Commission ('Staff') has advised Lionridge Capital Management Inc. ('Lionridge') of the intention of The Manitoba Securities Commission (the 'Commission') to issue a Notice of Hearing (the "Notice of Hearing") giving notice of its intention to hold a hearing under the Securities Act (the "Act") to consider:

- (a) whether or not it is in the public interest to order, pursuant to subsection 8(1) of the Act that:
 - (i) Lionridge be reprimanded;
 - (ii) terms and conditions be imposed on the registration of Lionridge; or
 - (iii) the registration of Lionridge be suspended or cancelled.
- (b) whether or not it is in the public interest to order that Lionridge pay the costs of or incidental to this Hearing; and
- (d) whether or not it is in the public interest to make any other order or orders.

A2. Discussions have been held between Lionridge and Staff in an effort to settle all outstanding issues between Staff and Lionridge. A settlement (the "Settlement") has

been reached on the terms and conditions set forth in this agreement (the "Settlement Agreement").

A3. Pursuant to the Settlement, Staff agrees to recommend to the Commission that all outstanding issues between Lionridge and Staff be resolved and disposed of in accordance with the terms and conditions of this Settlement Agreement as set forth below. Lionridge consents to the Settlement and to the making of the consent order referred to in subparagraph D1 below, on the terms and conditions set forth in this Settlement Agreement.

B. STATEMENT OF FACTS

The Parties

B1. Lionridge has been continuously registered as a portfolio manager under the Act since June 4, 2003. The head office of Lionridge is located in Winnipeg, Manitoba.

As a portfolio manager registered under the Act, Lionridge has ongoing responsibilities to report certain matters to the Commission and to comply with the requirements applicable to a portfolio manager registered under the Act.

Completion of Forms

B2. Lionridge filed an application for registration (Form 1) to obtain registration under the Act in 2003. Lionridge also filed a revised Form 1 in January 2007, as well as two additional Form 1 filings in March of 2007 in order to participate in the National Registration System. Portions of the Form 1 filings were deficient in the following respects:

- a. the shareholdings of the owners of the registrant were inaccurately described; and
- b. certain questions relating to the capitalization of the registrant in response to the questions found within 13A of Form 1 were inaccurately or incompletely answered;

B3. The registrant also filed an audited financial statement for the year ending December 31, 2005 which the registrant omitted to sign. The registrant did sign the audited financial statement after the omission was brought to its attention by Staff.

Shareholders

B4. The Act requires that the Commission be notified of any changes in ownership or shareholdings of a registrant. Lionridge failed to report in a timely and accurate manner changes in its shareholdings and in the number of shares owned by each shareholder at various times during its registration. In addition, on various occasions Lionridge inadvertently reported inaccurate numbers for some of its shareholdings.

Capital Deficiency

B5. During a compliance review conducted by Staff on December 1, 2005 the registrant advised Staff that it was deficient in its capital requirements. A review of the capital deficiency by Staff confirmed that the deficiency had been ongoing since September of 2005. At no time had the registrant informed Staff of the deficiency prior to the December 1, 2005 compliance review.

B6. As a result of inaccurate and incomplete filings, including subordinated shareholder loan agreements described below, Staff was not in a position to identify whether the registrant had sufficient capital to satisfy the requirements of a registrant under the Act until June 1, 2007. Subsequent information provided by the registrant shows that it did not have sufficient capital to satisfy the requirements of a registrant under the Act for approximately 2 months in early 2007 which was identified and corrected in April 2007.

Subordinated Loan Agreements

B7. In addition to the omission to disclose the existence of a subordinated shareholder loan agreement in the application for registration (Form 1), the registrant at various times made amendments, cancelled and entered into new subordinated shareholder loan agreements without informing the Commission in a timely manner. In addition to being a requirement for a registrant under the Act, the requirement to inform

the Commission of a change in a subordinated shareholder loan agreement is set out in agreement itself.

As a result of the failure of Lionridge to report this information the ability of Staff to monitor the financial circumstances of the registrant was impaired. To address this concern the registrant has since provided the required information to Staff.

Financial Institution Bond

B8. In 2006 the registrant failed to provide Staff with notice that it had renewed its financial institution bond in a timely manner. Such notice was subsequently provided after Lionridge was contacted by Staff.

B9. In March of 2007 Staff was again required to make a request of the registrant in order to ensure that the financial institution bond had been renewed. This request was answered on or about March 12, 2007.

Failure to respond and comply with terms and conditions

B10. A request was made of the registrant by Staff on January 9, 2006 as to how the capital deficiency referred to in B5 above had been corrected. The registrant responded on January 9, 2006 to advise that the deficiency had been rectified by way of a shareholder's loan, but did not identify the shareholder. The registrant promised to have internal year end statements prepared shortly and forward other required documentation. However, the registrant failed to provide such information in a timely fashion such that a second request was made by Staff on February 20, 2006. On March 1, 2006 Staff imposed a deadline of March 3, 2006 to provide the required information and confirm correction of the capital deficiency. The registrant then provided the information on March 3, 2006 as requested.

B11. On or about January 22, 2007, the Director of the Commission added terms and conditions to the registration of Lionridge. These terms and conditions were agreed to by the registrant. One of the terms and conditions required the registrant to provide monthly financial statements within 21 days of each calendar month end. On February 19, 2007, Staff reminded the registrant that the statements for the month ended January

31, 2007 were due. The financial statement was then filed on February 22, 2007, one day late.

C. ACKNOWLEDGEMENTS BY LIONRIDGE

C1. Lionridge admits that it acted contrary to the public interest by:

- a. providing inaccurate and/or incomplete information on forms required to be filed to obtain and maintain registration under the Act;
- b. providing inconsistent information to the Commission with respect to shareholdings and ownership of the registrant;
- c. filing an audited financial statement that was not signed by the registrant;
- d. failing to notify the Commission in a timely and accurate manner with respect to changes in ownership as well as changes in shareholdings of the registrant;
- e. permitting the registrant to become capital deficient;
- f. failing to report a capital deficiency to the Commission in a timely manner; and
- g. entering into, modifying and cancelling shareholders loan agreements without providing notice to the Commission in a timely manner.

C2. Staff acknowledge that the actions of Lionridge as described above appear to have occurred as a result of inadvertence or lack of familiarity with the Act's requirements, were not intended to mislead the Commission, and did not adversely affect Lionridge's clients.

D. TERMS OF SETTLEMENT

D1. Staff seek an order (the 'Consent Order') from the Commission below, pursuant to the provisions of the Act as follows:

- (a) The Settlement Agreement be approved;

- (b) A written reprimand will be placed on Lionridge's registration file relating to the matters set out in this Settlement Agreement;
- (c) Lionridge be assessed an administrative penalty in the amount of \$10,000 payable on or before December 31, 2007
- (d) Lionridge will make a contribution to costs of the investigation in the sum of \$5,000 payable to the Commission on or before October 1, 2007.
- (e) Lionridge is required to secure an immediate \$10,000 payment to be made to the company, for use in the maintenance of working capital requirements at an amount that is \$10,000 in excess of the minimum working capital requirements. These funds are to be segregated from the general accounts of the company, until the Director otherwise directs.

E. PROCEDURE

E1. The approval of this Settlement Agreement shall be sought at a public hearing.

E2. If this Settlement Agreement is approved by the Commission, and if a Consent Order issues in accordance with this Settlement Agreement, this Settlement Agreement will constitute the entirety of the evidence to be submitted to the Commission in connection with the Proceedings and, upon the making of the Consent Order contemplated by this Settlement Agreement, Lionridge waives its right to a full hearing and appeal of this matter.

E3. Notwithstanding any other provision of this Settlement Agreement, if, for any reason whatsoever, this Settlement Agreement is not approved by the Commission or the Consent Order referred to in section D above is not made by the Commission, Staff will be entitled to proceed with whatever steps it is entitled by law to take, including but not restricted to, the commencement of a hearing before the Commission, unaffected by this Settlement Agreement or any settlement discussions between the parties. In the event that such steps are taken, Lionridge shall have all of the usual rights of a person subject to such proceedings.

E4. If the Settlement Agreement is not approved or the Consent Order set out in section D above is not made by the Commission, the terms of this Settlement Agreement will not be raised in any other proceeding, and any admissions contained in this Settlement Agreement shall be considered as without prejudice communications in furtherance of settlement discussions which will not be binding upon the parties and which will be inadmissible in any proceeding whatsoever.

E5. If this Settlement Agreement is approved by the Commission and the Consent Order made upon the terms set out in this Settlement Agreement, this Settlement Agreement will be a public document.

E6. Lionridge agrees that, if this Settlement Agreement is approved by the Commission and the Consent Order is made upon the terms set out in this Settlement Agreement, Lionridge will not raise as a basis for attack on the Consent Order, this Settlement Agreement or the negotiation or process of approval of this Settlement Agreement, alleged bias, alleged unfairness or any other such challenge to the validity of the Consent Order.

E7. If this Settlement Agreement is approved by the Commission and the Consent Order is made upon the terms set out in this Settlement Agreement, Lionridge and Staff agree not to make or issue any public statements which contradict the facts and acknowledgements set out in this agreement.

DATED at Winnipeg, Manitoba, 7th this day of August, 2007.

Lionridge Capital Inc.

Per:


Hardev Bains - President

DATED at Winnipeg, Manitoba, 7th this day of August, 2007.

Staff of The Manitoba Securities Commission

Per:

