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UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

SECURITIES AND EXCHANGE COMMISSION,)	Civil Action No.: 2:10-cv-00955
)	
Plaintiff)	
)	
v.)	
)	
MERENDON MINING (NEVADA) INC,)	
LARRY LEE ADAIR, MILOWE ALLEN BROST)	
a/k/a MILOW BROST, M.B. GONNE or)	
PHILLIP K. COLLINS, WARD K. CAPSTICK,)	COMPLAINT
BRADLEY DEAN REGIER, GARY ALLEN)	
SORENSEN a/k/a DON GREY FOX,)	
MARTIN M. WERNER, SYNDICATED GOLD)	
DEPOSITORY INC, now known as BAHAMAS)	
RESOURCES ALLIANCE LTD., MERENDON)	
MINING CORP. LTD., INSTITUTE FOR)	
FINANCIAL LEARNING GROUP OF)	
COMPANIES, INC.,)	
)	
)	
Defendants)	
)	
THELMA SORENSON,)	
LAURA SORENSON,)	
)	
Relief Defendants.)	
)	

The Securities and Exchange Commission (“SEC”) alleges the following facts in support of its Complaint:

1 1. From at least 1999 to 2008, the Defendants perpetrated a \$300 million Ponzi
2 scheme that victimized over 3,000 investors in the United States and Canada. The Defendants
3 executed the scheme through a multi-level marketing organization and operated through a
4 labyrinth of companies and bank accounts which were designed to hide their misconduct from
5 investors and law enforcement. The Defendants eventually used more than eighty entities to
6 issue securities to investors, provide “dog and pony” shows to investors, and to disguise the
7 movement of investor funds among more than eighty bank accounts, located in United States,
8 Canada, Honduras, Ecuador, Peru, Venezuela, Panama, the Bahamas, Belize, Bermuda,
9 Malaysia, and Portugal. To further hide their involvement in the scheme, several of the
10 defendants acted under the guise of several personal aliases in forming and managing this cadre
11 of companies.

12 2. The primary architects and beneficiaries of the scheme were Defendants Gary
13 Allen Sorenson (“Sorenson”) and Milowe Brost (“Brost”).

14 3. Defendants commenced the scheme with the offer and sale of promissory notes
15 issued by Defendant Syndicated Gold Depository, Inc. (“SGD”), an entity formed in 1999 by
16 Sorenson and Brost.

17 4. Sorenson and Brost told investors that SGD was an independent company that
18 pooled investors’ funds and loaned the funds to Defendant Merendon Mining Corp. Ltd.
19 (“Merendon Int’l”) to purchase gold concentrate to process in its refinery in Honduras.
20 Defendants falsely represented that investors’ funds were secured by Merendon Int’l’s above-
21 ground gold or cash deposits. In fact, Sorenson and Brost were the undisclosed owners of
22 SGD, and contrary to their representations, Merendon Int’l did not have sufficient above-
23 ground gold, cash deposits or revenue from operations to pay interest owed to SGD under the
24 loan agreement.

25 5. Instead the Defendants used incoming investors’ funds to pay obligations to
26 existing investors. In classic Ponzi scheme style, after paying investors’ purported returns, the
27 Defendants diverted investors’ funds to their personal benefit, using tens of millions of dollars
28 to purchase and outfit luxury resorts, extravagant homes, and purchase recreational vehicles.

1 6. Eventually, the scheme expanded to include the offer and sale of securities in
2 various other companies which one or more of the Defendants or their associates secretly
3 controlled.

4 7. In furtherance of the scheme, the Defendants offered and sold the securities of what
5 they represented to investors was a “selected group of companies” which included, but is not
6 limited to the following: Quatro Communications Corporation (“Quatro”), Rapid Express
7 Corporation (“Rapid Express”), Arbour Energy Inc. (“Arbour Energy”), Strategic Metals
8 Corporation (“Strategic Metals”), Merendon Mining (Nevada) Inc. (“Merendon Nevada”), and
9 Bearstone Capital Management Inc. The defendants used funds received from investors in
10 these companies to pay purported returns to investors.

11 8. Defendants’ scheme revolved around several core misrepresentations and
12 omissions:

- 13 a) Investors were promised extraordinary annual returns, 18% to 100%, that were
14 purportedly paid out of the revenues of profitable businesses.
- 15 b) Investors were told their funds were fully collateralized and used for specific
16 business purposes.
- 17 c) Investors were told that the various companies that marketed the investment,
18 performed due diligence, and conducted audits of companies which issued
19 securities to investors were unrelated to each other were operating at arms
20 length, which would provide security to their investment by serving as a system
21 of checks and balances.

22 9. In furtherance of the scheme, Brost created and controlled several successive
23 marketing organizations, Capital Alternatives Inc. (“Capital Alternatives”), its successor the
24 Defendant Institute For Financial Learning Group of Companies, Inc. (“IFFL”) and Hav-Loc
25 Private Wealth Partners Inc. (“Hav-Loc”) to offer and sell the securities of various companies
26 to investors. Brost recruited and trained salespersons whom he called “Structurists” and whose
27 role in the scheme were to bring in new investors under the multi-level marketing model. The
28

1 Structurists acted under Brost's direction in offering and selling the securities of SGD and the
2 selected group of companies.

3 10. Defendant Ward K. Capstick ("Capstick") became a Structurist in 2001. He
4 offered and sold the securities of the companies discussed in this Complaint. In December
5 2003, Brost appointed Capstick as IFFL's regional executive for the Western United States.
6 Some of the Structurists were recruited by Capstick and acted under his direction in offering
7 and selling the securities of SGD and other companies. Capstick was also an officer and
8 director of Merendon Nevada.

9 11. Defendant Larry Lee Adair ("Adair"), who is a Florida attorney, served as the
10 president of SGD from approximately December 2001 through December 2003, but continued
11 to act in furtherance of the scheme through at least March 2007. Adair, as the president of
12 SGD, offered and sold its securities, and made false and misleading statements to Structurists
13 and investors about, among other things, the rate of return paid by SGD securities, the use of
14 investors' funds, the security of the investment, and independence of the various companies.
15 At various times throughout the period from December 2001 through March 2007, Adair used
16 one or more of his attorney trust accounts to receive funds from investors in SGD or the other
17 selected companies, pay purported returns back to investors, and pay funds for the benefit of
18 the defendants.

19 12. Defendant Bradley Dean Regier ("Regier") became the accountant and book-
20 keeper for Capital Alternatives in or about 2001 and for IFFL in 2003, as well as for other
21 companies whose securities Brost and the Structurists sold. Under Brost's direction, Regier
22 managed Expedia Logistics, Inc. ("Expedia Logistics"), which coordinated the processing of
23 IFFL investor information. In furtherance of the scheme, among other things, he created the
24 false and misleading offering materials for Rapid Express, and served as an officer or director
25 for Strategic Metals and Merendon Nevada. He directed the transfer of investors' funds
26 received by Rapid Express, Strategic Metals or Merendon Nevada through the sales of
27 securities to the bank accounts of Adair, Werner, Merendon Int'l or other entities controlled by
28 one or more of the defendants for further use in the scheme.

1 Sections 21(d), 21(e) and 27 of the Securities Exchange Act of 1934 (“Exchange Act”) [15
2 U.S.C. §§ 78u(d), (e) and 78aa].

3 17. Each defendant, directly or indirectly, made use of the means or instrumentalities
4 of interstate commerce, of the mails, or of the means and instruments of transportation or
5 communication in interstate commerce in connection with transactions, acts, practices and
6 courses of business alleged herein.

7 18. Venue is proper in this district pursuant to Section 22(a) of the Securities Act [15
8 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Certain of the acts,
9 practices, and courses of conduct constituting the violations of law alleged herein occurred
10 within this judicial district. Defendant Capstick resides in this district and was one of the
11 participants in the scheme to defraud investors.

12 **DEFENDANTS AND RELIEF DEFENDANTS**

13 19. **Defendant Merendon Mining (Nevada) Inc.** (“Merendon Nevada”) is a Nevada
14 corporation formed in December 30, 2002, and is now in default for failing to file corporate
15 filings with Nevada. Merendon Nevada acquired various mining properties through its wholly
16 owned subsidiaries: Merendon Mining (Colorado) Inc., which is a Colorado corporation that
17 had its principal place of business in Broomfield, Colorado; Merendon Mining (Arizona), Inc.
18 and Merendon Mining (California), Inc., which are Nevada corporations that had principal
19 places of business in Las Vegas, Nevada. The parent company and subsidiaries are referred to
20 jointly in this complaint as “Merendon Nevada.” Merendon Nevada offered and sold more
21 than \$140 million in securities between 2002 and 2007 in furtherance of the Ponzi scheme.
22 Investor victims sent their money to Merendon Nevada through a Colorado bank account
23 maintained by its Colorado subsidiary. Merendon Nevada is the subject of an involuntary
24 bankruptcy proceeding in the U. S. Bankruptcy Court for the Southern District of Florida
25 (Miami) case number 09-11958-AJC (filed 2/4/09).

26 20. **Defendant Syndicated Gold Depository S.A.** (“SGD”) is a Bahamian registered
27 corporation formed in August 1999 by Defendants Gary Allen Sorenson (“Sorenson”) and
28 Milowe Brost (“Brost”) which used a mailing address in Miami, Florida. SGD issued securities

1 to investors as a part of the scheme. In 2005, SGD formed a wholly-owned subsidiary called
2 Base Metals Corporation. In October 2007, SGD acquired control of all of the “International
3 Investments” discussed in this Complaint. From January 2000 to November 2007, SGD
4 promised investors 18%-36% annual returns, usually packaged as bonus return to investors in
5 Merendon Nevada or other related entities. SGD changed its name to Bahama Resource
6 Alliance Ltd. in or about May 2007.

7 **21. Defendant Merendon Mining Corporation Ltd.** (“Merendon Int’l”) was
8 incorporated in Alberta, Canada on or about February 22, 1996, and later changed its name to
9 Merendon Mining Corporation Ltd. on about May 9, 1996. Merendon Int’l maintained its main
10 office in Calgary, Alberta, Canada. Upon information and belief, Merendon Int’l is now
11 domiciled in Belize with its headquarters in Honduras. Merendon Int’l owns, among other
12 things, five wholly-owned subsidiaries which are Compania Merendon de Honduras S.A. de
13 C.V. (“Merendon Honduras”), a Honduran corporation; Merendon de Venezuela C.A., a
14 Venezuelan corporation; Merendon de Peru S.A., a Peruvian corporation; Merendon de
15 Ecuador S.A., an Ecuadorian corporation and Merendon Jewelry S.A., a Hondurian
16 corporation. Merendon Int’l through its subsidiary Merendon Honduras owns and operates a
17 gold refining facility in Tegucigalpa, Honduras and several gold concessions, which are mining
18 claims, in Honduras. Merendon Int’l and its subsidiaries are referred to jointly in this
19 complaint as “Merendon Int’l.”

20 **22. Defendant Institute for Financial Learning Group of Companies, Inc.**
21 (“IFFL”) is a Canadian corporation formed in Alberta, Canada in or about April 2003 and
22 operated from offices in Calgary, Alberta. It was the most prominent in a series of marketing
23 organization created by Defendant Milowe Allen Brost that offered and sold securities of
24 various companies to investors. At all times material to the complaint, Brost was the Chief
25 Executive Officer of IFFL and he recruited and trained a team of salespersons called
26 “Structurists” who were compensated by IFFL to offer and sell the various securities used in
27 the scheme. IFFL reported over 150 Structurist were touting its investment program in 2007.
28

1 **23. Defendant Milowe Allen Brost**, age 56, is a Canadian citizen, who resides in
2 Calgary, Alberta, Canada. Brost is also known by various aliases including Milo Brost, M.B.
3 Gonne, and Phillip K. Collins. Brost formed and ran the IFFL and other related marketing
4 companies, and was a director and shareholder of SGD. He was also a central member of the
5 International Business Group (“IBG”), which was represented as a group of businessmen and
6 businesses which purported to independently vet companies which offered securities to
7 investors as a part of the scheme. Additionally, Brost was a shareholder, director and CEO of
8 Merendon Nevada. Brost has been the subject of numerous regulatory actions by state and
9 Canadian securities regulators and as of June 2010 was arrested by the Royal Canadian
10 Mounted Police (“RCMP”) and is out on bond awaiting trial in Alberta, Canada, in connection
11 with fraudulent scheme outlined in this Complaint.

12 **24. Defendant Gary Allen Sorenson**, age 66, is a Canadian citizen, who currently
13 resides in Calgary, Alberta, Canada, but from approximately 2000 through 2009, resided in
14 Tegucigalpa, Honduras. Sorenson is also known by the alias of Don Grey Fox. Sorenson was
15 a director, chief executive officer and indirectly the controlling shareholder of Defendant
16 Merendon Mining Corp. Ltd. (“Merendon Int’l”), and was a shareholder and director of SGD.
17 Sorenson was a central member of the IBG and participated in IBG meetings during which
18 various Defendants discussed and implemented the scheme. Sorenson also held a beneficial
19 interest in Merendon Nevada. As of June 2010, Sorenson was arrested by the RCMP and is out
20 on bond awaiting trial in Alberta, Canada, in connection with the fraudulent scheme outlined in
21 this Complaint.

22 **25. Defendant Bradley Dean Regier**, age 40, is a Canadian citizen who resides in
23 Calgary, Alberta, Canada. Between 2001 and 2008, Regier was an accountant and bookkeeper
24 for a Brost-created marketing entity which was the predecessor to IFFL, as well as for several
25 of the companies whose securities Brost and the Structurists offered and sold to investors. He
26 also managed Expedia Logistics, which coordinated the processing of IFFL investor
27 information. Regier was a member of the IBG and participated in IBG meetings. Regier was
28 also an officer and director of Merendon Nevada and oversaw the accounting for that entity.

1 32. The Defendants' scheme had three components: the "Marketing Program," the
2 "National Investments," and the "International Investments." The purpose and effect of the
3 scheme was to funnel investor funds ostensibly sent to numerous different entities into one
4 bucket controlled by Sorenson and Brost.

5 **A. The Marketing Program**

6 33. Brost was the head of a Marketing Program that operated under a successive
7 series of names during the scheme and employed Structurists to sell securities to investors,
8 starting with his formation of a marketing company called Capital Alternatives in 1999. When
9 the Saskatchewan Financial Services Commission issued a Cease Trading Order in 2002
10 against Capital Alternatives, Brost created a new marketing company called the IFFL. In 2007,
11 after the Alberta Securities Commission sanctioned IFFL, Brost's team of marketers began
12 selling scheme securities under the name of Hav-Loc. Unless particular circumstances dictate
13 otherwise, these successive Brost marketing entities which operated during the scheme are
14 referred to herein collectively as the "IFFL." Between 1999 and 2008, the IFFL presented
15 itself as an investor education company that taught investing strategies which were ostensibly
16 concentrated on "restructuring" investors' underperforming assets.

17 34. Brost recruited and trained hundreds of individuals to become Structurists for IFFL
18 under a multi-level marketing model in which they were compensated for bringing in new
19 investors and new salespersons. In addition to making direct presentations to prospective
20 investors, throughout the scheme Brost held bi-annual and ad-hoc meetings with his team of
21 Structurists to train them how to sell the IFFL investment program. In furtherance of the
22 scheme, Defendant Sorenson gave presentations to the Structurists at the bi-annual meetings
23 concerning the investment products to be offered to investors. In December 2003, Brost
24 appointed Capstick as a regional executive and head Structurist for the Western United States.
25 Thereafter, Capstick also recruited, trained and managed some of the Structurists.

26 35. The IFFL's primary means of bringing in new investors was word-of-mouth.
27 Brost and the Structurists held group meetings with potential investors in hotels, banks and
28 private homes. The most extravagant IFFL meeting was a retreat in August 2006, for more

1 than 1,000 investors at a resort in the Bahamas that IFFL paid for with investors' funds – a
2 gathering Brost credited with bringing in \$25 million in new investor funds. At the group
3 meetings, investors were told about a purported investment strategy of “restructuring”
4 purportedly under-performing assets, such as 401(k)s and untapped home equity, into high-
5 return, low-risk off-shore investment opportunities.

6 36. Investors who attended group meetings and expressed an interest in restructuring
7 their assets were invited to private, one-on-one meetings with an IFFL Structurist. Consistent
8 with Brost’s training and direction, Structurists told investors in those meetings that the way to
9 access tax-deferred, high growth off-shore investments was to first purchase a security from an
10 available IFFL portfolio of on-shore companies, or “National Investments,” that would offer
11 relatively low-yield securities. The IFFL Structurists told investors that once they joined the
12 IFFL and purchased a security from one of the National Investments, they would automatically
13 receive an investment account reflecting interests in several off-shore companies
14 (“International Investments”) worth 78% - 85% of their principal invested with the National
15 Investment. The Structurists told investors that these International Investments would generate
16 very high annual returns – from 18% to 100%. Investors were also told that their International
17 Investments would grow tax-free off-shore and that they would only incur tax obligations when
18 they repatriated their funds.

19 37. The IFFL Structurists further claimed that the National Investments and
20 International Investments had been independently vetted through due diligence conducted by
21 an entity called the “International Business Group” (“IBG”), and that the integrity of the
22 investments would be constantly monitored. Brost, Capstick and the Structurists told investors
23 that the IBG was an independent group of successful businessmen that researched international
24 investment opportunities, and used its experience, past successes and due diligence to identify
25 and screen offshore investments which the IFFL then recommended to investors. In fact, the
26 IBG was just a name the Defendants used to describe themselves when they held meetings to
27 discuss their ongoing fraudulent scheme.

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1 38. Investors were told that their entitlement to participate in the International
2 Investments was at all times contingent upon their retention of an investment of principal in the
3 National Investments. The Defendants used this device to keep nervous investors in the
4 scheme as it began to unravel in 2007.

5 39. IFFL charged investors an initial fee of \$1,200 to \$1,600 to join the organization
6 before they could learn about the specific investment products, as well as an annual renewal
7 fee.

8 40. Brost received 6%-10% commission on all funds raised by IFFL Structurists.
9 Additional investor funds were paid as commissions to Structurists based on the amounts of
10 funds they raised. This fact was not disclosed to at least some investors.

11 **B. The National Investment**

12 41. The National Investment, which IFFL, Brost, Capstick and the Structurists
13 acting under their direction offered and sold to investors, was typically a North American
14 business that was represented to investors to be a successful and profitable company which
15 offered securities with a purported annual return of 5% to 12%.

16 42. Between 2000 and 2008, the Defendants used the Marketing Plan to sell more
17 than \$300 million of securities through eighteen companies identified as one of the National
18 Investments. The most prominent of them were as follows:

- 19 a) Between October 2001, and November 2003, Defendants offered and sold
20 approximately \$42,827,734 of the securities of Quatro Communications Inc.
21 (“Quatro”).
- 22 b) Between December 2003, and November 2004, Defendants offered and sold
23 approximately \$39,665,687 of the securities of Rapid Express Inc. (“Rapid
24 Express”).
- 25 c) Between July 2004, and December 2005, Defendants offered and sold
26 approximately \$47,338,084 of the securities of Arbour Energy, Inc. (“Arbour
27 Energy”).
- 28

1 d) Between July 2004 through August 2005, Defendants offered and sold
2 approximately \$36,400,000 of the securities of Strategic Metals Corp.
3 (“Strategic”).

4 e) Between October 2002 through November 2007, Defendants offered and sold
5 approximately \$140,000,000 of the securities of Merendon Nevada.

6 f) Between 2007 and 2008, Defendants offered and sold \$3 million of the
7 securities of a limited partnership related to Bearstone.

8 43. For each of the National Investments, the Defendants misrepresented or
9 concealed from investors the following material facts that:

10 a) Brost, Sorenson or their close associates controlled the companies;

11 b) While some companies had sufficient operations to present “dog and pony”
12 shows to investors, none were profitable; and

13 c) The money investors paid to purchase the securities of the National Investments
14 was used to pay purported returns to IFFL investors and to enrich the
15 defendants.

16 **C. The International Investment**

17 44. For investors, the National Investment offered by IFFL was merely a gateway to
18 the International Investment, where their purportedly exceptional returns were to be made.
19 IFFL, Brost, Capstick and the Structurists continuously represented that IBG was using its
20 experience, past successes and due diligence to identify offshore investments. Brost, Capstick
21 and the Structurists represented that investors would receive 18%-100% annual returns from
22 these low-risk, highly-collateralized International Investments.

23 45. IFFL, Brost, Capstick, and Structurists presented an evolving group of three or
24 four International Investment companies to investors, which included the securities of SGD.

25 46. As with the National Investments, the Defendants deceived investors by failing
26 to disclose the following critical facts that:

27 a) Brost and Sorenson were members of, and controlled, the IBG,
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- 1 b) They or their associates controlled each of the International Investment
2 companies that the IBG claimed to have identified through independent due
3 diligence;
4 c) None of the International Investment companies was profitable; and
5 d) None of the International Investment companies generated revenues sufficient to
6 pay the promised 18%-100% annual returns.

7 **II. Implementation of the Scheme**

8 **A. Sales of National and International Investments in Furtherance of the Scheme**

9 47. Brost, Sorenson, Regier, Capstick, Adair and Werner formed the inner circle of
10 conspirators with primary responsibility for conceiving and executing the scheme.

11 48. Throughout the scheme, the Defendants used succession of companies to
12 perpetrate their fraud. As one company attracted attention from regulators or otherwise
13 encountered problems, the Defendants formed a new one and issued new securities in order to
14 continue the scheme. The most prominent offerings were through SGD, Quatro, Rapid
15 Express, Arbour Energy, Strategic Metals, Merendon Nevada and Bearstone. Defendants made
16 numerous knowing, material misrepresentations and omissions relating to these offerings.

17 **1. Syndicated Gold Depository Inc.**

18 49. SGD was the primary International Investment presented to investors as part of
19 the IFFL investment program. IFFL, Brost, Capstick, Regier, Sorenson, Adair, Werner and
20 Merendon Int'l engaged in a scheme to defraud investors in connection with the offer and sale
21 of the securities of SGD.

22 50. In furtherance of the scheme, IFFL, Brost, Capstick, Regier, Sorenson, Adair,
23 Werner and Merendon Int'l used SGD as a device to raise money for Merendon Int'l's
24 operations, and to secretly enrich themselves.

25 51. In furtherance of the scheme, Sorenson, Brost, and another Canadian citizen,
26 Owen Hoffman, caused SGD to be incorporated in the Bahamas in 1999, and became its three
27 shareholders. Sorenson, Brost, and Hoffman created SGD with the business purpose of selling
28 securities to investors in the form of promissory notes, pooling investors' funds, and the

1 purportedly loaning those funds to Merendon Int'l to purchase gold concentrate for Merendon
2 Int'l to process in its refinery in Honduras. Sorenson and Brost were involved in managing and
3 controlling SGD's business affairs.

4 52. On or about September 17, 1999, Hoffman, on behalf of SGD, and Sorenson, on
5 behalf of Merendon Int'l and Merendon Honduras, entered into a joint venture agreement.
6 SGD agreed to provide funds to Merendon Int'l to finance the purchase of unrefined gold to
7 process at the refinery owned by Merendon Honduras in Honduras. In return SGD was to
8 receive 25% of the joint venture profits after costs, taxes and a refining fee, and Merendon Int'l
9 was to pay SGD an amount equal to 4% per month on the funds provided by SGD. The
10 agreement provided that representatives of SGD and Merendon Int'l were to sign off on
11 monthly audits of gold purchased, refined, and sold, and of the amounts of funds owed to SGD.
12 The agreement was later revised on November 29, 1999 and January 25, 2000.

13 53. In August 1999, Hoffman drafted a brochure titled "Syndicated Gold Depository
14 Program" concerning SGD's investment contracts. Sorenson also reviewed the statements in
15 the brochure and edited them. The brochure contained many of the misrepresentations about
16 SGD and Merendon Int'l that Sorenson and the other Defendants made to investors throughout
17 the Ponzi scheme.

18 54. From on or about August 1999 and continuing through November 2007, SGD,
19 IFFL, Brost, Capstick, Sorenson, Adair, and Werner directly or indirectly offered and sold
20 securities of SGD to one or more of the investors who reside in the Western District of
21 Washington or other places within the United States and Canada. The contracts provided that
22 SGD borrowed the funds from investors in exchange for monthly interest rates ranging from
23 1.5% to 3.5%. SGD represented that it loaned the investors' funds to Merendon Int'l for the
24 sole purpose of purchasing gold concentrate to process in its refinery.

25 55. The defendants directly or indirectly sent SGD offering materials, the
26 investment contracts, and monthly account statements reporting the monthly interest
27 purportedly earned to investors through the mails or by means of the Internet.

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1 56. Between August 1999 and November 2007, SGD, IFFL, Brost, Sorenson,
2 Merendon Int'l, Capstick (during the time period from December 2001 and November 2007),
3 Adair (during the time period from January 2002 through 2005), and Werner (during the time
4 period from April 2007 through November 2007) made false and misleading statements and
5 omissions of material facts in the offering materials and in verbal statements to investors
6 including, among other things, that:

- 7 a) The SGD program offered rates of return ranging from 3.5% to 1.5% per month;
- 8 b) Investors' funds were being used to purchase raw gold or gold concentrates to
9 be refined in Merendon Int'l's refinery in Honduras;
- 10 c) The investors' funds were collateralized by raw gold, finished gold, and cash on
11 deposit of Merendon Int'l at a ratio of 1 to 1 or greater;
- 12 d) SGD conducted audits of Merendon Int'l's production of finished gold, raw gold
13 still in the work in progress stage, and cash outstanding;
- 14 e) Merendon Int'l was profitable and paid rates of return of 18% to 36% which
15 would be repaid from profits generated by the refinery;
- 16 f) Merendon Int'l uses the proceeds from the sale of its gold to pay SGD its
17 appropriate interest;
- 18 g) SGD paid returns to investors out of profits generated by Merendon Int'l's
19 refinery when in fact those returns were paid out of investors' funds; and
- 20 h) Loans by SGD to Merendon Int'l were arms-length transactions between
21 independent parties.

22 57. The statements were false and misleading because SGD did not have sufficient
23 income to pay rates of return of 3.5% to 1.5 % per month. Investors' funds were used for
24 purposes other than the purchase of gold concentrate for processing in Merendon Int'l's
25 refinery. The investors' funds were not collateralized by raw gold, finished gold or cash on
26 deposit at a ratio of 1 to 1 or greater. SGD did not conduct audits of the gold produced and the
27 cash outstanding of Merendon Int'l. Merendon Int'l was not profitable. Merendon Int'l did not
28 have sufficient proceeds from the sale of gold to pay SGD the interest that was due. The

1 defendants failed to disclose that the purported returns SGD paid to investors were in fact from
2 the funds paid to SGD by other investors rather than from the operations of Merendon Int'l.
3 The defendants failed to disclose that Sorenson, who was an officer and director of Merendon
4 Int'l, and Brost, who was the chief executive officer and owner of Capital Alternatives and
5 IFFL, beneficially owned and controlled SGD.

6 58. In furtherance of the scheme, IFFL, Brost, Capstick and Structurists instructed
7 investors to transfer funds to the accounts of third parties, which then transferred the funds to
8 the trust accounts of Adair or Werner for the benefit of SGD.

9 59. In furtherance of the scheme, Adair and Werner transferred SGD investors'
10 funds to Merendon Int'l or other entities for the benefit of one or more of the Defendants.

11 60. In furtherance of the scheme, Merendon Int'l and Sorenson received the
12 investors' funds from SGD without providing the security represented as above ground gold or
13 cash deposits at a ratio of 1 to 1 or greater; or providing interest payments to SGD from
14 Merendon Int'l's business operations. Instead, Merendon Int'l paid purported interest from the
15 investors' funds it received from SGD.

16 61. On October 24, 2000, the Alberta Securities Commission entered an order
17 against Sorenson, Merendon Int'l, and others requiring among other things that Sorenson
18 withdraw as a director of any issuer of securities and to cease trading securities for two years.

19 62. On or about August 3, 2001, Brost, Sorenson and Hoffman met in Miami,
20 Florida for a stockholders and directors meeting of SGD. They discussed that SGD's liability
21 for principal and interest to investors was approximately \$16,000,000 but that the cash and gold
22 of Merendon Int'l was valued only at \$3,032,480. Although they knew that Merendon Int'l did
23 not have sufficient collateral to secure the investments made by SGD, they agreed that Brost
24 was to instruct the Structurists to say that the SGD investment was a low risk because there was
25 a 1 to 1 ratio of collateral to investment. They also discussed that Merendon Int'l had a capital
26 requirement of \$5,000,000 by December 31, 2001. Sorenson proposed that the Structurists
27 who raised \$2.5 million be paid a bonus of 1.5%, and that they receive another bonus after
28 raising an additional \$2.5 million.

1 63. During the August 3, 2001 meeting, Brost, Sorenson and Hoffman also agreed
2 to conceal their ownership of SGD by transferring their shares of SGD to three corporate
3 entities. They backdated the agreement to January 25, 2000. They further agreed that any
4 notices required under SGD shareholders' agreement were to be sent to Adair in Florida.

5 64. As part of the scheme to sell SGD securities, Brost conducted at least four
6 meetings with investors in South Carolina and North Carolina between 2001 and 2003, at
7 which he offered the securities of SGD for sale. Brost also met with prospective investors in
8 the Seattle, Washington area. Among other things, Brost omitted to disclose the following:

- 9 a) That he was a shareholder of SGD.
- 10 b) That he had taken steps to conceal his ownership of SGD, including appointing
11 nominee shareholders and having others hold shares in trust for him.
- 12 c) That Sorenson was a shareholder of SGD.
- 13 d) That Sorenson had taken steps to conceal his ownership of SGD, including
14 appointing nominee shareholders.
- 15 e) That he controlled the entities presented in National and International
16 Investment Program.
- 17 f) That certain individuals who had discovered the companies through due
18 diligence were involved in forming SGD and the other entities.

19 65. In October 2002, during an investor tour in Honduras, Brost told investors the
20 34% returns from SGD were being generated by the operations of the Merendon Int'l refinery.

21 66. As part of the scheme to sell SGD securities, Sorenson, both individually and as
22 the CEO of Merendon Int'l, made statements similar to those contained in the offering
23 materials when he met with prospective investors, some of whom travelled from the Western
24 District of Washington to see the operation of the refinery in Honduras or to attend Structurists
25 conferences held in Canada. Among other things, Sorenson told prospective investors that
26 SGD loaned money to Merendon Int'l to fund its operations and that Merendon Int'l had
27 pledged all of its assets as collateral for the loans received from SGD. Sorenson made false and
28 misleading statements of material fact including among other things:

- 1 a) On January 7, 2002, Sorenson met with potential and existing SGD investors. In
2 that meeting, he falsely stated that SGD and Merendon Int'l were arms length
3 companies. He falsely stated that Merendon paid SGD investors out of its
4 profits from its refinery. He falsely stated Merendon earned enough money to
5 pay the SGD investors' monthly interest in three to four days of refining.
6 Sorenson also falsely claimed that SGD investments were secured by above-
7 ground gold.
- 8 b) In October 2002, Sorenson met with additional SGD investors. At that meeting,
9 Sorenson falsely stated that the Merendon Int'l refinery was profitable and that
10 the SGD funds were making him wealthy through the operations of the refinery.
11 Additionally, Sorenson falsely stated that the refinery was in active production
12 and was producing substantial amounts of refined gold.
- 13 c) On September 11, 2003, Sorenson met with group of potential and existing IFFL
14 investors. Sorenson falsely stated that he had no control over SGD.
- 15 d) At an IFFL Structurist conference in Canmore, Canada in December 2003,
16 Sorenson told the Structurists and IFFL members, "Why do we recommend
17 SGD as an investing fund? The answer should be because it is 100% secure."
18 Sorenson also stated the SGD fund will be \$150,000,000 by December 31, 2005.
- 19 e) In approximately December 2004, Sorenson met with a group of SGD investors.
20 He responded to investor questions about who had negotiated the Merendon
21 Int'l and SGD Master Agreement by concealing his and Brost's involvement
22 with SGD. Sorenson falsely stated that Brost was not involved in the process.
23 Sorenson stated that he negotiated on behalf of Merendon Int'l and the "SGD
24 syndicate" negotiated on behalf of SGD.
- 25 f) On February 25, 2005, Sorenson met with SGD investors in Honduras. He
26 denied paying investor monthly payments with new or other investor money.
27
28

1 67. In or about December 2001, Adair was named a director and president of SGD.
2 As part of the scheme to sell SGD securities, Adair made false and misleading statements
3 including among other things the following:

4 a) In a July 2002 newsletter to investors, Adair said “My duties require that I spend
5 much of my time in Honduras addressing the day to day operations on behalf of
6 SGD clients. . . . The raw gold is then refined at the facilities of Merendon . . .
7 while always under the supervision of SGD's onsite agent, whose sole purpose is
8 to monitor and look after the interest of SGD and its clients. At the end of each
9 day's production, an audit of the day's output is taken of both finished and raw
10 gold still in progress.”

11 b) In January 2003, Adair told investors that he “personally does the vault tote
12 audit” and that, on five days notice SGD could take over Merendon Int'l's
13 assets, if there was a default.

14 c) On January 1, 2005, an investor telephoned Adair and discussed his concerns
15 about the security of his SGD investment. Adair assured the investor that there
16 was no threat to his SGD investment. Adair stated the investment was 10 times
17 more secure than when the investor first visited Honduras in 2003. On March 4,
18 2005, Adair had a recorded conversation with Hoffman in which Adair stated
19 that SGD investors would “blow their brains out” if they knew the truth about
20 the investment because Merendon Int'l had no assets in production and no
21 income. On March 8, 2005, Adair spoke again with the same investor who had
22 called him on January 1, 2005, and assured him that his investment was secured
23 by Merendon Int'l, and that it was 10 times larger and more secure than before.

24 68. The statements made in the offering materials or verbally by Brost, Sorenson
25 and Adair were false and misleading. Throughout the time period at issue, Sorenson, Brost and
26 Adair knew or were reckless in not knowing that Merendon Int'l was not producing sufficient
27 revenue from the sales of gold to pay 4% interest provided for in the joint venture agreement.
28 They also knew that Merendon Int'l did not own sufficient finished gold, cash on deposit, and

1 raw gold inventories to provide collateral to repay the funds that investors had invested with
2 SGD to provide as loans to Merendon Int'l. They knew that SGD did not perform extensive
3 daily, weekly, or monthly audits of the plant's production and output of finished gold. They
4 each knew that Sorenson and Brost were the beneficial owners of SGD.

5 69. On or about February 22, 2002, Merendon Int'l held a board of directors
6 meeting which was attended by Sorenson, Brost, Hoffman and Adair. Brost gave a
7 presentation on funds being raised through securities sales by SGD, which were to be paid as
8 funding to Merendon Int'l under the joint venture agreement. Adair and other directors voted
9 to accept the consolidated financial statements of Merendon Int'l dated November 30, 2001 and
10 May 31, 2001. The financial statements showed that for the period ending November 30, 2001,
11 Merendon Int'l had gross margin of \$178,674 from sales of gold after deducting expenses,
12 inventory of gold of \$319,762, and cash of \$1,232,122. Sorenson, Brost and Adair knew or
13 were reckless in not knowing that as of January 1, 2002, Merendon Int'l owed SGD
14 approximately \$24,329,114 in principal and interest. Sorenson, Brost and Adair also knew or
15 were reckless in not knowing from this information that Merendon Int'l did not have the ability
16 to pay SGD the 4% monthly interest promised in the joint venture agreement. By at least
17 February 2002, Sorenson, Brost and Adair knew from their participation in Merendon Int'l's
18 board meeting that Merendon Int'l did not have the sufficient above-ground gold or cash to
19 collateralize SGD's loans to it.

20 70. Merendon Int'l's financial statements show that from at least 2000 to 2007, it
21 was not profitable and did not generate revenue sufficient to repay the principal and interest it
22 owed to SGD. Its financial statements show that it did not possess above-ground inventories of
23 gold or cash sufficient to collateralize the SGD debt at a ratio of 1 to 1 or greater. Sorenson, as
24 a beneficial owner of Merendon Int'l, knew at all relevant times the financial condition of
25 Merendon Int'l.

26 71. The knowledge Sorenson, Brost and Adair obtained at the meeting of the board
27 of directors for Merendon Int'l or through their access to Merendon Int'l financial statements is
28

1 attributed to SGD, because Sorenson, Brost and Adair were also officers or directors of SGD.
2 Brost's knowledge is attributed to IFFL for whom he also served as a director and CEO.

3 72. In spite of their knowledge of the financial situation of Merendon Int'l and SGD,
4 Brost, Sorenson and Adair continued their scheme to offer and sell securities of SGD, with the
5 intention of transferring additional funds obtained from investors in SGD to Merendon Int'l.

6 73. Although Adair resigned his appointment as the president and director of SGD
7 on or about January 5, 2004, he continued to act on behalf of SGD and communicate with
8 investors through at least 2005. In January 2004, Adair was nominally replaced as president by
9 Graham Blaikie who also served as Sorenson's cook in Honduras and the budget director for
10 Merendon Int'l.

11 74. Adair continued to participate in the scheme to defraud by representing SGD in
12 its dealings with the Pennsylvania Securities Commission and in preparing a rescission offer to
13 investors living in Pennsylvania who purchased securities of SGD through 2004.

14 75. In August 2004, Adair sent a fax to Sorenson requesting that SGD repay
15 Parklane investors who were subjects of the Pennsylvania Securities Commission investigation
16 because they were US investors who had threatened to go to the SEC.

17 76. In September 2004, Adair represented in a letter to an investor that "the fact that
18 SGD had elected to make a formal rescission offer to Pennsylvania investors has no bearing on
19 the financial integrity of the investment itself. . . . [W]e are pleased to report that the financial
20 condition of Merendon Int'l and conversely SGD has never been stronger."

21 77. Adair falsely represented in the rescission offer: that the net funds loaned to
22 SGD were used in a joint venture between SGD and Merendon Int'l to provide capital for the
23 purchase of raw materials (gold and silver ore) for its refinery; that the raw gold was stored on
24 site in a bank vault and was insured; that the raw gold was refined under the supervision of
25 SGD's on sight agent; that the daily production was audited; and that Merendon Int'l issued
26 SGD its appropriate interest from the gross proceeds of the sale of gold which was paid on a
27 monthly basis. Adair also sent a copy of the rescission letter to Sorenson.

28

1 78. In December 2004, Sorenson and Adair offered the SGD investment to a
2 prospective investor familiar with the mining and refining business. The prospective investor
3 confronted Adair with the accusation that SGD was a Ponzi scheme. Adair admitted that SGD
4 was in fact operating as a Ponzi scheme.

5 79. On July 7, 2005, Hoffman told Adair that Merendon Int'l's books were being
6 manipulated to hide Sorenson's misuse of funds. Adair responded that everyone knew that.
7 Adair further confirmed that he knew Sorenson had used "millions" for his own benefit and
8 that all of the money Sorenson had was SGD money. "Larry, it's gotta blow up some day,"
9 Hoffman said. "No doubt about it," Adair replied, "my days are very numbered, I know that."

10 80. A few days later, Adair sent a memorandum to Merendon Int'l's controller that
11 demonstrated his knowledge that Sorenson was misusing SGD's funds and admitted that
12 Sorenson had directed him to pay investors' funds from SGD to Sorenson's daughter, Laura
13 Sorenson.

14 81. From late 2005 through at least February 2007, Regier directed investor funds
15 from Merendon Nevada's bank account to accounts that Adair controlled at Regent Bank in
16 Florida for the benefit of Sorenson and SGD.

17 82. In or about 2006 and 2007, Regier was not able to continue to pay SGD
18 investors returns through banks account of True North Productions LLC, (an entity beneficially
19 owned and controlled by Brost) at Wells Fargo Bank. In the fall of 2006, Wells Fargo
20 terminated Regier's ability to make redemptions from that account.

21 83. Sorenson then made arrangements with Adair to pay investor returns out of bank
22 accounts that Adair controlled at Regent Bank in Florida.

23 84. In a series of e-mails in November 2006, Regier and Adair agreed to describe
24 the cashier's checks they used to pay investor redemptions as "legal documents" on Fed Ex
25 shipping labels. Adair used the term "legal documents" as a ruse to avoid inspection by
26 Customs when the package containing cashier's checks crossed the border into Canada. Adair
27 told Regier that he had lied to the bank about the purpose of the investor redemption checks in
28 order to get the bank to issue them.

1 85. Adair managed the flow of funds received by SGD from investors, and at the
2 direction of Sorenson made distributions of those funds from March 2002 until March 2007.

3 86. In or about November 2000, Capstick traveled to Honduras to view Merendon
4 Int'l's refinery. By at least February 2001, Capstick had become a Structurist with Capital
5 Alternatives. Starting on or about December 2001, Capstick offered and sold the securities of
6 SGD and the selected group of companies. In December 2003, Capstick became IFFL's
7 Regional Executive for the Western United States. He spoke at IFFL Structurist training
8 conferences about various investments being offered for sale.

9 87. IFFL, Brost and Capstick effected sales transactions in the securities of SGD for
10 the accounts of others. At the time of those transactions, they were not registered as broker
11 dealers or associated with a registered broker or dealer. As brokers or dealers, Brost and
12 Capstick had a duty to determine if the representations they made about SGD's business
13 operations and ability to pay were true. Brost and Capstick knew or were reckless in not
14 knowing that the representations each made about SGD were false and misleading.

15 88. From at least December 2004 forward, Capstick joined Sorenson, Brost, Regier
16 and others at the bi-annual "Summit Meetings" in which they managed the fraudulent scheme.
17 At those meetings Sorenson gave an update on Merendon Int'l's operations, which were the
18 purported source for SGD's revenue to pay investors' returns and collateral for the investors'
19 investments. Sorenson told the defendants at these summit meetings that Merendon Int'l was
20 always in the development stage and had never reached the point of production. In one of those
21 meetings, Brost and Sorenson confirmed that they were equal owners of SGD. Accordingly
22 Capstick knew by at least December 2004 that SGD was operating as a Ponzi scheme, because
23 Merendon Int'l was not producing sufficient gold to pay the returns represented to SGD
24 investors.

25 89. In August 2005, Capstick offered the SGD investment to investors, but failed to
26 disclose that Brost and Sorenson owned and controlled SGD, and the lack of Merendon Int'l
27 gold production.

28

1 90. In November 2005, Capstick presented the SGD investment to another investor
2 and failed to disclose Brost's and Sorenson's ownership and control of SGD and the lack of
3 Merendon Int'l's production of gold.

4 91. In November 2006, Capstick re-explained the SGD investment to the investor he
5 had solicited in August 2005, but failed to disclose that Brost and Sorenson owned and
6 controlled SGD, and the lack of Merendon Int'l gold production. In December 2006, Capstick
7 discussed with that same investor how to set up an account with another entity controlled by the
8 Defendants in order to receive the proceeds from his SGD investment. He failed again to
9 disclose Brost's and Sorenson's ownership and control of SGD or the lack of Merendon Int'l
10 gold production.

11 92. In February 2007, Sorenson, Brost, Capstick, Regier, Werner and others
12 participated in a series of meetings of the IBG. Among other things, they discussed the
13 scheme's financial information from 2006, and the need to devise a plan to raise additional
14 funds from new investors in order to pay purported returns to existing investors, to pay their
15 operating expenses, and their own personal expenses.

16 93. Werner became the president of SGD in or about April 2007 and served to the
17 present date.

18 94. In furtherance of the scheme, Werner, as the president of SGD, offered and sold
19 the securities of SGD from at least April 2007 through November 2007.

20 95. During 2008, Werner sent written communications to investors. Upon
21 information and belief, Werner also caused monthly account statements to be sent through the
22 Internet to SGD investors which falsely represented that their investments with SGD were
23 earning returns of 2.5% per month.

24 96. Werner knew from his participation in the IBG meeting that SGD did not have
25 funds to pay the purported returns represented in the monthly statements, and that Merendon
26 Int'l did not have revenue from gold production to pay the interest to SGD under the joint
27 venture or the collateral promised to secure the investors' funds loaned to Merendon Int'l.

28

1 97. Throughout the course of the scheme, Sorenson directed the movement of SGD
2 funds, including the direction of incoming investor funds to pay obligations to other investors.

3 **2. Quatro Communications Corporation**

4 98. IFFL, Brost, Capstick, Regier, Sorenson, Adair, and Merendon Int'l engaged in
5 a scheme to defraud investors in connection with the offer and sale of the securities of Quatro
6 to IFFL members and then transfer the proceeds from the securities sales offshore to Merendon
7 Int'l or other entities beneficially owned, controlled or directed, by one or more of the
8 defendants.

9 99. In furtherance of the scheme, IFFL, Brost, Capstick, Regier, Sorenson, Adair,
10 and Merendon Int'l used Quatro as a device to raise money for Merendon Int'l's operations, to
11 repay purported returns to SGD investors, and to secretly enrich them.

12 100. Brost caused an associate to form Quatro, which was incorporated in Alberta,
13 Canada on May 10, 2002.

14 101. From approximately March 2002 through November 2004, IFFL, Brost,
15 Capstick, and other Structurists acting under their direction, directly and indirectly offered and
16 sold securities of Quatro in the form of promissory notes as one of the National Investment
17 companies offered to one or more of the investors who resided in the Western District of
18 Washington and other places within the United States and Canada. IFFL, Brost, Capstick, and
19 the Structurists acting under their direction represented that the Quatro promissory notes were
20 for a term of ten years and paid an interest rate of 75% at the end of the term. The terms of the
21 promissory notes were later changed to one year with an interest rate of 5.75%.

22 102. The defendants directly or indirectly sent Quatro offering materials and the
23 promissory notes to investors through the mails or by means of interstate commerce.

24 103. Between October 2001 through November 2003, IFFL, Brost, Capstick, and
25 other Structurists acting under their direction falsely represented to prospective investors,
26 among other things, that:

- 27 a) Quatro was a company engaged in the telecommunications business and had
28 sufficient earnings from business operations with which to pay interest on the

1 promissory notes. They failed to disclose that Quatro was a shell corporation
2 with no business operations from which to pay purported earnings ranging from
3 5.75% to 7.5% per year.

4 b) Investors' funds would be used in the telecommunications business. They failed
5 to disclose that Quatro was simply a conduit through which investors funds were
6 passed in a series of transfers through accounts and ultimately to Merendon
7 Int'l, Sorenson Brost or other entities beneficially owned, controlled or directed,
8 by one or more of the defendants.

9 c) Quatro was an independent business. They failed to disclose Quatro was formed
10 by an associate of Brost and that Brost controlled the distribution of investors'
11 funds received by Quatro from its securities sales.

12 104. IFFL, Brost, and Capstick knew or were reckless in not knowing that Quatro
13 was a shell corporation and did not have sufficient business operations to pay interest on the
14 promissory notes from 5.75% to 7.5% per year, that Quatro's funds were to be used for
15 purposes other than investment in the telecommunications business such as transfer to
16 Merendon Int'l, and that Quatro was not an independent business.

17 105. Brost and Capstick effected sales transactions in the securities of Quatro for the
18 accounts of others. They were not registered or associated with a registered broker or dealer.
19 As brokers or dealers, Brost and Capstick had a duty to determine if the representations they
20 made about Quatro's business operations and ability to pay were true. Brost and Capstick knew
21 or were reckless in not knowing that the representations each made about Quatro were false and
22 misleading.

23 106. IFFL, Brost, Capstick and other Structurists acting under their direction offered
24 and sold approximately \$42,827,734 in securities of Quatro.

25 107. In furtherance of the scheme, Quatro transferred approximately \$8,763,149 to
26 the bank accounts of Adair. Adair transferred the funds to various accounts for the benefit of
27 Merendon Int'l, Sorenson, and Brost or other entities beneficially owned, controlled or
28 directed, by one or more of the defendants.

1 108. Adair knowingly participated in the scheme to defraud the investors who
2 purchased Quatro securities by accepting investors' funds into his attorney trust accounts and
3 paying those funds as purported returns to SGD investors or secretly transferring investors'
4 funds for the personal benefit of Sorenson or Brost, and to other companies beneficially owned
5 or controlled by one or more of the defendants.

6 109. On September 30, 2004, IFFL, Brost, Capstick and other Structurists were
7 ordered by the Alberta Securities Commission not to trade securities including, but not limited
8 to, the securities of Quatro, SGD or other companies. Brost also agreed that he would not in
9 the future incorporate or organize any company that would trade in securities or act as an
10 advisor as those terms are defined in the Alberta Securities Act.

11 **3. Rapid Express Corporation**

12 110. IFFL, Brost, Capstick, Regier, Sorenson, Adair, and Merendon Int'l engaged in
13 a scheme to defraud investors in connection with the offer and sale of the securities of Rapid
14 Express Corporation ("Rapid Express") to IFFL members and then transfer the proceeds from
15 the securities sales offshore to Merendon Int'l or other entities beneficially owned, controlled
16 or directed, by one or more of the defendants.

17 111. In furtherance of the scheme, IFFL, Brost, Capstick, Regier, Sorenson, Adair,
18 and Merendon Int'l used Rapid Express as a device to raise money for Merendon Int'l's
19 operations, to repay purported returns to SGD investors, and to secretly enrich themselves.

20 112. In or about September 2003, Brost announced at a Structurist training meeting
21 that a new company was replacing Quatro as one of the National Investments to be offered by
22 IFFL and its Structurists starting October 1, 2003.

23 113. Brost caused an associate to form Rapid Express, which was incorporated in
24 November 3, 2003. An employee of IFFL was listed as its nominal president. However, Brost,
25 with Regier's assistance, controlled the administrative side of Rapid Express and directed the
26 flow of funds from Rapid Express to Merendon Int'l.

27 114. From approximately September 2003 to November 2004, IFFL, Brost, Capstick,
28 Regier and Structurists acting under their direction offered and sold the securities of Rapid

1 Express in the form of one year promissory notes to investors, some of whom resided in the
2 Western District of Washington and other locations in the United States and Canada.

3 115. The defendants directly or indirectly sent Rapid Express offering materials and
4 the promissory notes to investors through the mails or by means of interstate commerce, some
5 of whom resided in the Western District of Washington and other locations in the United States
6 and Canada.

7 116. As part of the scheme, Brost, Capstick and other Structurists under their control
8 instructed U.S. investors to wire transfer their funds to a U.S. currency bank account in Canada
9 in order to purchase the promissory notes of Rapid Express.

10 117. Between October 2001 through November 2004, IFFL, Brost, Capstick, and
11 other Structurists acting under their direction made false and misleading statements of material
12 fact to prospective investors including, among other things, that:

- 13 a) Rapid Express was a profitable company able to pay interest on its promissory
14 notes of approximately 8% per year. They failed to disclose that Rapid Express
15 was a shell corporation and had no business operations from which to pay
16 purported interest of 8% per year on the promissory notes sold to investors.
- 17 b) Investors' funds would be used to further the business of Rapid Express, which
18 was purportedly developing rapid express trains. They failed to disclose that
19 Rapid Express was a shell corporation with insufficient assets or income from
20 operations to satisfy its obligations to Rapid Express.
- 21 c) Rapid Express was an independent business. They failed to disclose that Rapid
22 Express was formed at the request of Brost and that Brost controlled the
23 distribution of investors' funds received by Rapid Express from its securities
24 sales.

25 118. Regier and Brost knew that Rapid Express was nothing but a shell corporation.
26 Despite this knowledge and at Brost's direction, Regier drafted offering materials for
27 Structurists to use in the sale of Rapid Express securities that falsely represented Rapid Express
28 was seeking capital resources to participate in the rapid express train business. Regier simply

1 pulled materials from the Internet relating to the transportation industry to create the offering
2 materials. Brost and Regier knew that Rapid Express was not a viable company but rather a
3 means to raise capital which was transferred to accounts of Adair for the benefit of SGD, and
4 ultimately Merendon Int'l, Sorenson, Brost or entities beneficially owned, controlled or
5 directed by one or more of the Defendants. Regier and Brost knew that Brost, Capstick and
6 Structurists under their control would use the false and misleading offering materials prepared
7 by Regier to offer and sell the securities of Rapid Express to IFFL members. As officers of
8 IFFL, Brost's and Regier's knowledge is attributed to IFFL.

9 119. Between approximately September 2003 and November 2004, IFFL Brost,
10 Capstick, Regier and Structurists acting under their direction, offered and sold approximately
11 \$39,665,687 of the securities of Rapid Express.

12 120. IFFL, Brost and Capstick effected sales transactions in the securities of Rapid
13 Express for the accounts of others. They were not registered or associated with a registered
14 broker or dealer. As brokers or dealers, Brost and Capstick had a duty to determine if the
15 representations they made about Rapid Express' business operations and ability to pay were
16 true. Brost and Capstick knew or were reckless in not knowing that the representations each
17 made about Rapid Express were false and misleading.

18 121. In July 2004, Sorenson and Capstick attended an IFFL training session for
19 Structurists in Kelowna, Alberta Canada. At that meeting, Brost explained that funds for SGD
20 redemptions came from funds that investors paid as investments in Quatro, Rapid Express,
21 Arbour Energy and Merendon Nevada. Based on their participation in this meeting, Sorenson
22 and Capstick knew that funds from Quatro, Rapid Express, Arbour Energy, and Merendon
23 Nevada were being used to pay purported earnings to SGD investors rather than using funds
24 paid to SGD by Merendon Int'l as part of its joint venture agreement.

25 122. Rapid Express transferred approximately \$11,737,729 to Adair's trust accounts
26 at Regent Bank and to other entities beneficially owned, controlled or directed by one or more
27 of the defendants.

28

1 123. Adair knowingly participated in the scheme to defraud the investors who
2 purchased Rapid Express securities by accepting investors' funds into his attorney trust
3 accounts and paying those funds as purported returns to SGD investors or transferring
4 investors' funds to various accounts for the benefit of Merendon Int'l, Sorenson or Brost, and
5 to other companies beneficially owned or controlled by one or more of the defendants.

6 **4. Arbour Energy Inc.**

7 124. IFFL, Brost, Capstick, Regier, Sorenson, Adair, and Merendon Int'l engaged in
8 a scheme to defraud investors in connection with the offer and sale of the securities of Arbour
9 Energy to IFFL members and then transfer the proceeds from the securities sales offshore to
10 Merendon Int'l other entities beneficially owned, controlled or directed, by one or more of the
11 defendants.

12 125. In furtherance of the scheme, IFFL, Brost, Capstick, Regier, Sorenson, Adair,
13 and Merendon Int'l used Arbour Energy as a device to raise money for Merendon Int'l's
14 operations, to repay purported returns to SGD investors, and to secretly enrich themselves.

15 126. In or about September 2003, Sorenson, Adair, and Arthur Wigmore who were
16 members of the Merendon Int'l board of directors and Brost met in Calgary to discuss using a
17 public company named Arbour Energy to raise money for Merendon Int'l through the sale of
18 securities of Arbour Energy to IFFL members. At the time, Arbour Energy effectively had no
19 business operations and had filed for bankruptcy protection.

20 127. On December 2, 2003, Brost, Capstick, Regier, Adair, Sorenson and others
21 participated in an IFFL conference for Structurists. With the knowledge of Brost, Regier,
22 Adair and Sorenson, Capstick told the Structurists that IFFL was launching a new investment
23 opportunity in a public company listed on Canadian securities exchange. Although not named
24 in the presentation, the company was Arbour Energy.

25 128. In or about March 2004, one of Arbour Energy's directors became Merendon
26 Int'l's in-house counsel. Wigmore, who was a director of Merendon Int'l, became a director of
27 Arbour Energy in or about July 2004.

28

1 129. In or about May 2004, Brost announced at an IFFL conference for Structurists
2 that IFFL was offering investments in Arbour Energy.

3 130. Between July 2004 and December 2005, IFFL, Brost, Capstick, and Structurists
4 acting under their direction offered and sold the securities of Arbour Energy in the form of
5 preferred shares that purportedly paid a 5.75% cumulative, annual dividend.

6 131. Between July 2004 and December 2005, IFFL, Brost, Capstick, and Structurists
7 acting at their direction made false and misleading statements of material fact including, among
8 other things that:

- 9 a) Arbour Energy was engaged in the business of acquiring properties in the oil
10 and gas sector. They failed to disclose that Arbour Energy did not have
11 sufficient income from its operations to pay the purported returns of 5.75% per
12 year.
- 13 b) Proceeds from the sales of Arbour Energy's securities were to be used in
14 furtherance of its business operations. They failed to disclose that funds
15 invested in Arbour Energy were to be transferred to Merendon Int'l and other
16 entities beneficially owned, controlled or directed by one or more of the
17 defendants.
- 18 c) Arbour Energy was an independent business selected as an investment for IFFL
19 members by the IBG. They failed to disclose that Arbour Energy was associated
20 with Merendon Int'l, Sorenson and Brost, and that Brost and Regier directed the
21 transfer of funds raised through the sale of Arbour Energy securities.

22 132. IFFL, Brost and Capstick knew or were reckless in not knowing that Arbour
23 Energy did not have sufficient income from operations to pay purported returns of 5.75% per
24 year. They knew that investors' funds from the purchase of securities of Arbour Energy were
25 to be transferred to Merendon Int'l other entities beneficially owned, controlled or directed, by
26 one or more of the defendants. They knew from their participation in the IBG that Arbour
27 Energy was not an independent business.

28

1 133. IFFL, Brost and Capstick effected sales transactions in the securities of Arbour
2 Energy for the accounts of others. They were not registered or associated with a registered
3 broker or dealer. As brokers and dealers, IFFL, Brost and Capstick had a duty to determine if
4 the representations that they made about Arbour Energy's business operations and ability to
5 pay were true. Brost and Capstick knew or were reckless in not knowing that the
6 representations that each made about Arbour Energy were false and misleading.

7 134. In furtherance of the scheme, an IFFL employee sent an email to Regier and
8 others Structurists in November 2004, containing a letter to investors from Brost that was
9 designed to manipulate IFFL members to purchase preferred securities of selected companies
10 including Arbour Energy and Strategic Metals. The email to Regier and Structurists states
11 among other things:

12 Capital Alternatives administration will walk new Member through the
13 paperwork process. This will guide the Member to Arbour Energy for
14 registered product and for non registered product to Strategic metals
15 preferred shares series 2. Please use the attached form letter to direct the
16 new Member for restructuring. For YOUR information: the additional
17 Companies listed on the attached form letter other than Capital
18 Alternatives are there to ensure that it is not perceived by any individual or
19 Company that IFFL and the marketing team is only promoting Capital
20 Alternatives. (In other word the other options are there for a smoke &
21 mirror effect.)

22 135. Between July 2004, and December 2005, IFFL, Brost, Capstick and Structurists
23 at their direction offered and sold securities in the form of preferred shares of Arbour Energy to
24 IFFL members, including residents of the Western District of Washington and other locations
25 in the United States and Canada, for proceeds of approximately \$47,338,084.

26 136. As part of the scheme, Brost instructed Regier to transfer investors' funds
27 received from the sales the securities of Arbour Energy directly to Merendon Int'l with
28 instructions for Merendon Int'l to further transfer part of the funds to other entities controlled
or beneficially owned by one or more of the defendants.

 137. On November 16, 2005, the Alberta Securities Commission suspended trading
in the securities of Arbour Energy.

1 **5. Strategic Metals Corporation**

2 138. IFFL, Brost, Capstick, Regier, Sorenson, Merendon Int'l and Adair engaged in a
3 scheme to defraud investors by offering and selling the securities of Strategic Metals to IFFL
4 members and then transferring the proceeds from the sale of the securities offshore to
5 Merendon Int'l other entities beneficially owned, controlled or directed, by one or more of the
6 defendants.

7 139. In furtherance of the scheme, IFFL, Brost, Capstick, Regier, Sorenson, Adair,
8 and Merendon Int'l used Strategic Metals as a device to raise money for Merendon Int'l's
9 operations, to repay purported returns to SGD investors, and to secretly enrich themselves.

10 140. Strategic Metals was incorporated in Alberta, Canada on April 27, 2004, and
11 operated from offices in Calgary, Alberta. Brost, Sorenson, and Arthur Wigmore were initially
12 listed as directors of Strategic Metals but were removed over six month later and replaced with
13 Edna Forrest, Carol Weeks and Regier, who were employees of IFFL.

14 141. In 2004, Brost owned 50% of Strategic Metals.

15 142. Brost requested that Regier join the board of directors of Strategic Metals and
16 advised him that Strategic Metals would be the National Investment used to raise money
17 through the sale of preferred shares by means of offering memoranda with the funds invested
18 by IFFL members to be transferred through True North Productions.

19 143. Brost and Regier asked Forrest to become the president and a director of
20 Strategic Metals. Although Forrest had no experience in running a mine, Brost told her that he
21 and Sorenson would help her and be running the mine. Forrest had been employed by IFFL
22 since December 2003 to process memberships. She reported to Regier and ultimately to Brost.
23 She was paid by Expedia Logistics, a company Brost controlled and Regier managed, for both
24 her work at IFFL and Strategic Metals.

25 144. In or about December 2003, Brost and Sorenson both spoke to an IFFL
26 Structurist conference. Sorenson reported the amount of ounces of gold Merendon Int'l
27 possessed in proven and probable reserves, and falsely represented that it had a ratio of assets
28

1 to investments of 3 to 1 based on either gold in the vault or in the ground for every dollar that
2 was managed by SGD.

3 145. In July 2004, at another IFFL conference attended by Structurists, members, and
4 potential investors, Sorenson took the members on a tour of the Tulameen gold property owned
5 by Merendon Int'l through Stone Mountain Resources Ltd.

6 146. From approximately July 2004 through August 2005, IFFL, Brost, Capstick and
7 Structurist acting under their direction, directly and indirectly offered and sold the securities of
8 Strategic Metals in the form of preferred shares, which either had a term of five years and
9 purportedly paid 14.95% interest per year, or a term of seven years and purportedly paid
10 11.75% interest per year.

11 147. Brost along with Weeks drafted the offering materials for Strategic Metals
12 including offering memoranda dated July 1, 2004, January 10, 2005, and June 1, 2005, and a
13 Capital Alternatives brochure containing a Term Sheet for Strategic Metals that were sent to
14 prospective investors. Regier signed the offering memoranda and certified that each did not
15 contain misrepresentations.

16 148. Between July 2004 and August 2005, IFFL, Brost, Capstick and Regier made
17 false and misleading statements of material fact including among other things:

- 18 a) Strategic Metals was a profitable company which could pay interest of either
19 14.95% or 11.75% per year to investors who purchased its preferred shares.
20 They failed to disclose the company was not profitable.
- 21 b) Strategic Metals was in the business of financing or acquiring through arms
22 length transactions, companies for the acquisition of mining reserves, capital
23 costs for milling production equipment, and milling production and general
24 production of precious metals. They failed to disclose that investors' funds were
25 not used to finance arms length companies, but were instead transferred to
26 Merendon Int'l or other companies beneficially owned, controlled or directed by
27 one or more of the defendants.

- 1 c) Investors' participation would be secured by proven precious metals reserves,
2 probable precious metals reserves and precious metals under contract for
3 refining at a ratio of not less than 3:1 asset value over dollars invested. They
4 failed to disclose that Strategic Metals did not hire any professionals to
5 determine if the company's properties contained proven or probable reserves of
6 precious metals before entering into various agreements.
- 7 d) Strategic Metals was an independent and successful business. They failed to
8 disclose that Strategic Metals was associated with Merendon Int'l, Sorenson and
9 Brost, and that Regier, at the direction of Brost, transferred investors' funds
10 from Strategic Metals to Merendon Int'l.
- 11 e) They failed to disclose the true amount of commissions paid to Capital
12 Alternatives.
- 13 f) They failed to disclose that Forrest, an officer and director, and Regier, a
14 director, were employed by IFFL.
- 15 g) They failed to disclose compensation to Regier and Weeks from Expedia.
- 16 h) They failed to disclose that Strategic Metals had agreed to pay Expedia the sum
17 of 0.5% of all funds raised through investments in Strategic Metals up to a
18 yearly amount of \$200,000.

19 149. IFFL, Brost, Capstick and Regier knew or were reckless in not knowing their
20 statements to investors were false and misleading.

21 150. IFFL, Brost, Capstick, Regier, Sorenson, and Merendon Int'l offered and sold
22 approximately CAD \$36,400,000 of the securities of Strategic Metals to investors, some of
23 whom resided in the Western District of Washington, and other locations in the United States
24 and Canada. During this time period, Strategic Metals had no income from other sources.
25 Metals.

26 151. IFFL, Brost and Capstick effected sales transactions in the securities of Strategic
27 Metals for the accounts of others. They were not registered or associated with a registered
28 broker or dealer. As brokers and dealers, IFFL, Brost and Capstick had a duty to determine if

1 the representations that they made about Strategic Metals' business operations and ability to
2 pay were true. Brost and Capstick knew or were reckless in not knowing that the
3 representations that each made about Strategic Metals were false and misleading.

4 152. In December 2005, in response to requests for documents from the Alberta
5 Securities Commission related to Strategic Metals, Brost, Sorenson and Regier discussed
6 creating post-dated documents for the transfer of funds from Strategic Metals to entities
7 controlled by the defendants. For example, Regier created a promissory note from The Cheer
8 Place, Inc. to correspond to transfers of investors' funds it received from Strategic Metals. In
9 addition, Brost created a promissory note from Honducan to Strategic Metals to correspond to
10 transfers of investors' funds paid to Arbour Energy.

11 153. Sorenson admitted that he knew that Brost was using the roughly \$37 million of
12 investors' funds raised by Strategic Metals to pay Merendon Int'l and repay investors in SGD
13 through transfers made to True North Productions.

14 **6. Merendon Mining Nevada, Inc.**

15 154. From approximately October 2002 through November 2007, IFFL, Brost,
16 Regier, Capstick, Merendon Int'l, Sorenson, SGD, Adair, Werner and Merendon Nevada
17 engaged in a scheme to defraud investors by offering and selling the securities of Merendon
18 Mining (Nevada) Inc. ("Merendon Nevada") to IFFL members and then transferring the
19 proceeds to SGD, Merendon Int'l other entities beneficially owned, controlled or directed, by
20 one or more of the defendants.

21 155. In furtherance of the scheme to defraud, Brost caused an associate to incorporate
22 Merendon Mining (Colorado), Inc. in Nevada on December 30, 2002. The company later
23 changed its name to Merendon Nevada on October 5, 2004.

24 156. Merendon Nevada was beneficially owned and controlled by Brost and
25 Sorenson.

26 157. In furtherance of the scheme, Merendon Nevada opened a bank account with US
27 Bank in Colorado in February 2003. One of Merendon Int'l's directors and Brost's wife,
28 Elizabeth Brost, were the initial signatories on the account. Merendon Nevada opened

1 additional bank accounts with US Bank in November 2003 with Brost, Brost's wife, Regier,
2 and Capstick as the signatories on the accounts.

3 158. In furtherance of the scheme in or about July 2003, Sorenson requested that one
4 of Merendon Int'l's directors locate and develop gold properties in Colorado and Arizona for
5 Merendon Nevada to operate.

6 159. In November 2003, IFFL retained Werner as its corporate counsel to prepare
7 opinions about Merendon Nevada's program to expend funds for the development of certain
8 mining properties.

9 160. At the December 2003 IFFL conference for Structurists, Capstick told
10 Structurists and IFFL members about a National Investment offered by Merendon Nevada.
11 Capstick discussed information he had received from Werner about the program. He stated
12 Brost was preparing the plan for January. Brost, Sorenson and Adair were present at the
13 conference.

14 161. On or about October 5, 2004, Brost was listed as the president, Regier was listed
15 as the secretary and treasurer, and Capstick was listed as the vice president of marketing of
16 Merendon Nevada.

17 162. Brost requested that Regier serve as a director of Merendon Nevada. Regier
18 also performed bookkeeping for Merendon Nevada through Expedia Logistics.

19 163. Between November 2002 and November 2007, Merendon Nevada, IFFL, Brost,
20 Capstick and the Structurists directly and indirectly offered and sold securities of Merendon
21 Nevada in the form of investment contracts, and promissory notes containing an eight month
22 term that paid 8.75% per annum, but which the defendants represented to be long term
23 investments that were automatically renewed unless the investor gave other instructions. These
24 defendants directly and indirectly offered and sold approximately \$140 million of Merendon
25 Nevada securities to IFFL members, some of whom resided in the Western District of
26 Washington and in other locations in the United States and Canada.

27 164. IFFL, Brost, Capstick and Structurists acting under their direction represented to
28 prospective investors that the Merendon Nevada promissory notes were part of a long term

1 investment in the International Investment program that were to be held for approximately
2 eight years. The Defendants offered the Merendon Nevada promissory notes to the public and
3 the proceeds were not used solely to fund current operations.

4 165. Merendon Nevada, IFFL, Brost, Capstick and Structurists acting under their
5 direction gave investors offering materials prepared by Brost, which included the “Merendon
6 Mining (Nevada) Inc. Business Plan,” and made similar false and misleading statements of
7 material fact including, among other things, that:

8 a) "Merendon [Nevada] is a precious metals explorer, developer, and producer
9 with a successful history of discovering, developing, and profitably operating gold
10 and other metal mines in the United States. Merendon [Nevada] is a company
11 engaged in exploration, development and production of gold and other precious
12 metals." They failed to disclose that Merendon Nevada was not producing enough
13 revenue to cover its operating expenses or the required payments to investors.

14 b) Investors' promissory notes were secured by a pledge of certain proven gold
15 reserves from the “Glory Hole” or Patch mineral properties located in Gilpin
16 County, Colorado. They failed to disclose that Merendon Nevada never obtained
17 clear title to those reserves.

18 c) The Company would be profitable in the first year of production of gold and
19 other metals and would increase profits over the next 15 years. They failed to
20 disclose that the Company was not profitable in its first year of operations or any of
21 the following years.

22 d) The initial mine sites including the Glory Hole or Patch properties had proven,
23 commercially valuable mineral rights. They failed to disclose that Merendon
24 Nevada did not have sufficient information to determine if the Glory Hole and Patch
25 properties contained proven, commercially valuable mineral rights.

26 e) “Merendon has agreed to contract with Merendon Minerals (Texas) Inc., a
27 Texas corporation to provide contract services as called for in this and other
28 agreements.” They failed to disclose that no corporation named Merendon Minerals

1 (Texas) Inc. was registered with the State of Texas. Merendon Nevada never
2 entered into any contract with Merendon Minerals (Texas) Inc. to develop its
3 mining properties.

4 f) "The contract miner will process at least 40,000 tons of mineral bearing earth
5 per month. . . . In the event that the contract miner fails to produce at least \$1,000
6 per ton of earth processed in revenues from such processing, . . . the contract miner
7 will pay the participant's shortfall in the participant's future development payments
8 to Merendon and also provide a minimum return to each participant of six and one
9 half (6.5%) percent of the amount of cash which the participant has paid to
10 Merendon for the Participant's first year cash payment to Merendon commencing
11 with the fourth year of the program." They failed to disclose that Merendon Nevada
12 never entered into any processing contract with the terms listed above.

13 g) They failed to disclose to investors that the Defendants intended to transfer
14 investors' funds out of the bank accounts of Merendon Nevada and to the trust
15 accounts of Adair and Werner for further payment to Merendon Int'l or to other
16 entities for the benefit of the defendants.

17 166. Brost and Capstick knew from their involvement with the business of Merendon
18 Nevada that the statements in the Business Plan and made verbally to investors were materially
19 false and misleading. They knew that Merendon Nevada mining properties were not in
20 production. They knew from discussions with Regier that incoming investors' funds were used
21 to pay purported returns to other investors.

22 167. Merendon Nevada's financial statements show that from at least December 31,
23 2002 to June 30, 2007, it was not profitable and did not generate revenue sufficient to repay the
24 principal and interest owed to its investors. Brost, Capstick and Regier as officers and directors
25 of Merendon Nevada knew at all relevant times the financial condition of Merendon Nevada.

26 168. In furtherance of the scheme, Brost directed Regier to transfer investors' funds
27 from Merendon Nevada's bank to the bank accounts of True North Productions, which Brost
28

1 controlled, for the purpose of paying purported returns to investors, and to transfer funds to
2 SGD through accounts controlled by Adair or Werner.

3 169. Brost received approximately 5% of the investors funds invested in Merendon
4 Nevada.

5 170. In furtherance of the scheme, Merendon Nevada sent a letter in May 2008 to its
6 investors, which Brost, Regier and Capstick drafted, that stated that Merendon Nevada had no
7 business relationship to Merendon Int'l and that the principals of the two companies, though
8 they knew each other socially, did not have a business relationship. They omitted to disclose
9 that Brost and Sorenson, the principals of the two entities, had a substantial business
10 relationship.

11 **B. Defendants' Knowledge of the Scheme**

12 171. In early 2007, Brost, Sorenson, Regier, Capstick and Werner convened a series
13 of meetings in order to review the scheme's "financials" from 2006, to devise a plan to raise
14 additional funds from new investors and to agree how to apportion those new funds among
15 items such as returns to existing investors, marketing expenses and their own personal profit.

16 172. In advance of those meetings, on February 5, 2007, Brost sent Sorenson, Regier,
17 Capstick and Werner an eleven-page e-mail that confirms the Defendants' participation in a
18 Ponzi scheme. Brost described the IFFL marketing efforts as the engine of "fresh capital" used
19 to meet the "cash call" of investor returns:

20
21 IFFL: Original[ly] created as Capital Alternatives Inc. and then re-started
22 as The Institute For Financial Learning. . . . [I]n March 1999, [Capital
23 Alternatives] moved forward with what was then one marketer, Milo A.
24 Brost. Today the IFFL has more than 100 marketers (Structurists) which
25 will rise to 140 by fiscal year end 2007. They will collectively produce in
26 excess of \$ 100M USD of fresh capital this year. . . to date the marketing
27 team under my guidance has produced sufficient capital to support all of
28 our activities

Over the years we have created a National Asset hold position and an
International Management Participation, with this in mind the [investor]
today has the capacity to redeem \$'s for a variety of reasons, however also

1 as of today this cash call has been born by marketing efforts to continue to
2 expand and meet the cash call

3 173. Brost went on to explain in the email that the scheme was running its course and
4 either the proposed defendants or “a regulatory body” would have to bring the IFFL’s activities
5 into check:

6 [T]he IFFL should peak this year and systematically wide [sic] itself
7 down, should the process take 6 months or 6 years is debatable, however it
8 is obvious that at some point the IFFL will have to bring its activities into
9 check. At such time all issues of funding are going to become critical,
10 whether we choose to make the move or a regulatory body does it for us.

11 174. Brost stated that the scheme was only designed for a 5-year cycle and the
12 obligations to investors on the International Investment side were “exponentially” increasing:

13 SGD . . . : Today there is a composite obligation of somewhere
14 between \$ 400 to 500 M. . . . Problem: Although we have keep
15 [sic] up with redemptions and business building over the last 8
16 years the process was only ever built on a five year cycle. The
17 farther we get down this road the more the dollars exponentially
18 will get out of control.

19 175. On the National Investment side, Brost discussed funds owed to Merendon
20 Nevada investors and explained why they could not be repaid:

21 [Merendon Nevada]: Has approximately \$110,000,000 USD of short term
22 promissory notes that cannot be renewed beyond a second term. . . .
23 Solution: To cash out all note holders Problem: No identifiable
24 large sums of money, i.e., \$110 M.

25 176. Brost further explained in the email that lack of proper accounting records and
26 SEC scrutiny would keep Merendon Nevada from restructuring its notes into equity:

27 Alternate Solution: To create an offering memorandum and place all note
28 holders into an equity position. Problem: To complete an OM one must
provide detailed accounting, or at least consolidated balance sheets. Brad
[Regier] and Bill [Camp] are no where near to such accounting. Also the
company will have to demonstrate Mining Values sufficient to support
such an offering and the offering will have to be vetted before the very
SEC individuals in States seeking to hang Milo [Brost] and Ward

1 [Capstick] for Securities Violations. What do you think the odds are of
2 Merendon Nevada [Merendon Nevada] getting such an offering approved?

3 177. Finally, Brost discussed the fact that they could not unwind the “loans”
4 Merendon Nevada made to True North Productions (a Brost-controlled entity that functioned as
5 a conduit for investor funds) in order to pay investor returns because of True North
6 Productions’ “invisible business purpose”:

7 True-North Productions LLC has outstanding loans to [Merendon Nevada]
8 in an amount exceeding \$ 60,000,000 USD. At the present we would be
9 hard pressed to create a viable underlying business theme to even justify
10 TN’s existence.

11 Solution: As it stands today there is only one possible way out, and that is
12 have a significant amount of \$’s loaned or create a Joint Venture with
13 [True North Productions], say \$ 70,000,000. This would allow a
14 [Merendon Nevada] repayment, clean up the outstanding loans and allow
15 TN to clean up its activities. For a Joint Venture to be effective we must
16 establish a viable business premise and a cash flow model to accomplish
17 the same objectives as a loan. Problem: No viable lenders given TN’s
18 invisible business purpose and no possibility of a Joint Venture.

19 178. On February 8-11, 2007, Brost, Sorenson, Regier, Capstick and Werner met in
20 Honduras. Acting as Chairman of the IBG, Werner recorded minutes of the meetings (“the
21 Minutes”) and circulated them to Brost, Sorenson, Regier and Capstick on February 18, 2007.
22 Brost, Sorenson, Regier, Capstick and Werner approved the Minutes at a follow-up meeting in
23 March 2007.

24 179. The Minutes show that Brost, Sorenson, Regier, Werner and Capstick discussed
25 a “2006 Cash Expenditures of IBG (U.S. Dollars).” This discussion was based on a summary
26 of cash flow prepared by Regier with a copy of the cash flow summary included in the Minutes.
27 Regier’s summary confirmed the existence of the Ponzi scheme, showing that:

- 28
- a) New investors provided the only source of funding (\$97.3 million for 2006,
virtually all through Merendon Nevada);
 - b) Investors’ funds were used to pay returns to investors (\$35 million for 2006);

1 c) Brost and Sorenson directed the payment of investors' funds for their benefit
2 (\$9.1 to Brost and \$24.5 million to Sorenson).

3 180. Brost, Sorenson, Regier, Werner and Capstick also reviewed the various issues
4 described above from Brost's February 5, 2007 e-mail. In so doing, Brost, Sorenson, Regier,
5 Capstick and Werner demonstrated their control over the National and International
6 Investments and knowledge of the scheme. For example, the Defendants discussed the fact that
7 the president of Arbour Energy had failed to execute a contract to purchase a company from
8 Merendon Int'l and that he had not taken steps to keep Arbour Energy shares trading on
9 Canadian exchanges. The Defendants moved to remove the president of Arbour Energy if he
10 did not act upon their instructions.

11 **C. Continuation of the Admitted Ponzi Scheme in 2007**

12 181. After the IBG meetings, Sorenson, Brost, Capstick, Regier and Werner went on
13 to offer and sell an additional \$50 million in securities to investors. Most of those funds were
14 raised through the sale of additional Merendon Nevada promissory notes with corresponding
15 investments in SGD or other International Investments.

16 182. Shortly after participating in the IBG meetings in February and March 2007,
17 Werner began moving IFFL investors' money through his trust account at the direction of
18 Sorenson. Werner knew from his conversations with Regier that the funds were from investors
19 in Merendon Nevada. He knew from his participation in the IBG meetings that the defendants
20 were using investors' funds as part of a Ponzi scheme.

21 183. Werner knew that at least one purpose for using his trust account was to hide the
22 sources of funds. For example, on March 30, 2007, Werner and Regier discussed via e-mail
23 their use of Werner's trust account to move funds between IBG entities in order to hide the fact
24 that Brost was behind the fund movement.

25 184. On March 29, 2007, in the wake of the IBG meetings, Brost e-mailed Werner,
26 Regier and Capstick in order to schedule a meeting "to discuss Ltd. Partnerships as a product to
27 replace initially all SGD account managers The purpose of this meeting is to look at an
28

1 overall solution to the underlying asset and how best to get out in front of the Regulatory [sic]
2 Bodies.”

3 185. In a series of e-mails in April 2007 involving Brost, Sorenson, Werner and
4 Regier, Bearstone was played a role in paying returns to SGD investors in connection with the
5 scheme. As the president of Bearstone, Werner furthered the scheme by causing an offering of
6 limited partnership shares Goldstone, in which Bearstone was the general partner. This
7 offering raised at least \$3 million from November 2007 through March 2008. At least some of
8 the funds raised by this offering were directed to SGD in furtherance of the scheme.

9 186. The Bearstone / Goldstone offering was marketed by Hav-Loc, which was
10 constituted primarily of IFFL Structurists and led by one of Brost’s top Structurists, Thierry
11 Geveart. Brost had an arrangement with Geveart to receive 1% of all funds Hav-Loc raised.

12 187. In August 2007, Brost engaged in an effort to convert investors’ lending
13 positions with SGD into equity positions with a limited partnership.

14 188. On August 3, 2007, Brost e-mailed Werner and Regier regarding that effort.
15 Brost stated:

16
17 “I am out here running my mouth and cannot help but feel like I am
18 twisting in the wind with no basis of certainty.” . . Brost also stated: “I
19 have made it no secret that the organization and especially Gary
20 [Sorenson] (for Business Growth) is going to need to have serious dollars
21 immediately [sic] This lack of forward traction with confirmations for
22 D/D is going to be the death of the organization [sic] Cash and lots of
23 it is going to be needed and now frankly [sic] Time has not been our
24 friend for a while, are you done???? Is the Geological info confirmed, I
25 do not want to panic, however, between being out here running my
26 moullh [sic] and the mounting need for Cash through put, we are but days
27 from disaster. [sic] I need to know what is going on. ... [sic] I have
28 tried to call Gary’s office in Honduras however between no answer, him
being out and messages I have not connected to date [sic] I am very
concerned.”

29 189. The next day, on August 4, 2007, Brost met with a group of SGD investors in
30 South Carolina. Brost made the following misrepresentations:

1 a) That proven ounces of gold at Merendon de Peru were to back all of the LP
2 shares. Brost stated the reserves had been proven, the assaying and drilling had
3 been done, and they were ready to start production. He failed to disclose that he
4 had “no basis for certainty” regarding the reports and that the geological reports
5 had not been completed.

6 b) That the IFFL investments were doing well, didn’t need new capital and were
7 self-sustaining. He failed to disclose the immediate need for cash and the
8 resulting “death of the organization” and “disaster” that was “but days away” if
9 the cash was not raised.

10 190. In October 2007, SGD, while Werner was president, issued a “Comprehensive
11 Notice” to investors that discussed the new limited partnership program that was set up to
12 absorb all of the existing National and International Investments, but he failed to disclose the
13 existence of the Ponzi scheme and the IBG’s control of all of the National and International
14 Investments.

15 191. On or about November 2007, Werner became the president of Bearstone.
16 Defendants had previously used Bearstone to absorb Quatro’s and Rapid Express’ obligations
17 to investors.

18 192. In November 2007, Werner announced to investors that he had become the
19 president, director and controlling shareholder of Bearstone. From November 2007 to March
20 2008, Bearstone raised over \$3 million from investors through securities offered by a limited
21 partnership.

22 193. On March 14, 2008 and March 31, 2008, Werner spoke with an SGD investor
23 by telephone and told him that SGD was going to be able to repay his investment by acquiring
24 mining properties from Merendon Int’l. He attempted to lull the investor by offering to “bump
25 up” the amount SGD owed him. He further lulled the investor by stating the “assets are very
26 resilient” and the “goal line is very close.” He did not disclose SGD’s or Merendon Int’l’s role
27 in the Ponzi scheme. Werner assured the investor he was acting “in good faith” but did not
28 disclose his role in IBG and the scheme.

1 194. On May 2, 2008, Werner held a conference call with at least fifteen SGD
2 investors, in which he again failed to disclose the existence of the Ponzi scheme. Instead,
3 Werner made lulling statements about potential sources of repayments of the SGD investments.

4 195. In July 2009, Werner sent an e-mail to all SGD investors stating that he was
5 reviewing the status of SGD investments and that, if they sent him \$300, he would be able to
6 make a determination of whether they held positions with SGD. Werner again failed to
7 disclose SGD's part in the Ponzi scheme.

8 196. All told, Merendon Int'l received at least \$100-150 million in investor funds
9 through funds raised through IFFL investments.

10 197. Merendon Int'l held itself out to investors as the successful business ultimately
11 generating the returns that investors were to receive through their IFFL-related investments
12 when, in fact, Merendon Int'l was not profitable, never reached a production stage, and did not
13 have business revenues remotely capable of paying the promised returns to investors.

14 198. Merendon Int'l used its officers, bank accounts and employees to hide the
15 movement of investor funds. For example, Arbour Energy sent incoming investor funds
16 directly to Merendon Int'l, and Regier included instructions that Merendon Int'l redirect
17 portions of the funds to Brost-controlled accounts which were used to pay returns to existing
18 investors.

19 199. Additionally, Sorenson, acting as Merendon Int'l's President / CEO, directed
20 Adair to move investor funds through a number of bank accounts and ultimately back to
21 investors.

22 200. Merendon Int'l employees and board members, namely Graham Blaikie and
23 Adair, held officer or director positions with SGD and/or moved SGD funds in furtherance of
24 the Ponzi scheme.

25 201. Merendon Int'l entered into illegitimate transactions with other entities
26 controlled by Sorenson and Brost to paper-over the movement of investor funds and move
27 funds to Merendon Int'l in exchange for insufficient consideration. For example: Strategic
28 Metals used investor funds to purchase an entity called Stone Mountain from Merendon Int'l.

1 Regier, Sorenson and Brost were involved in the negotiations for this transaction. Rather than
2 discussing how much Stone Mountain was worth, the discussions focused on how much could
3 be paid to Merendon Int'l for tax and appearance purposes. Similarly, Arbour Energy loaned
4 investor funds to Merendon Int'l even though there was no documentation in place for the loan.
5 When the transaction came into question, Brost and Sorenson collaborated to establish an
6 amount of interest owed. Arbour Energy's loan to Merendon Int'l was erased through another
7 sham transaction in which Arbour Energy purchased a company called Tar Sands Recovery
8 Ltd.

9 202. As a result of the defendants actions discussed above, from approximately
10 August 1999 through at least March 2008, SGD, IFFL, Merendon Int'l, Merendon Nevada,
11 Brost, Capstick, Regier, Sorenson, Adair and Werner engaged in a scheme to defraud investors
12 by offering and selling the securities of SGD, Quatro, Rapid Express, Arbour Energy, Strategic
13 Metals, Merendon Nevada, and other companies to IFFL members and then transferring the
14 proceeds from the sale of those securities offshore to Merendon Int'l other entities beneficially
15 owned, controlled or directed, by one or more of the defendants. In the course of the scheme
16 defendants obtained money from investors through false and misleading statements and
17 omissions of material facts. They also engaged in acts, transactions and courses of business
18 that operated as a fraud upon the IFFL members who were investors in the various securities.
19 The defendants violated Section 10(b) of the Exchange Act and Rule 10b-5, and Section 17(a)
20 of the Securities Act.

21 203. SGD, IFFL, Merendon Int'l, Merendon Nevada, Brost, Capstick, Sorenson,
22 Adair, Werner and Regier acted with requisite scienter.

23 204. The Defendants' actions resulted in substantial losses to investors.

24 **III. Unregistered Offers and Sales of Securities**

25 205. From September 1999 through approximately November 2007, SGD, IFFL,
26 Brost, Capstick, Sorenson, Adair and Werner, directly or indirectly, offered and sold the
27 securities of SGD in the form of investment contracts to one or more residents of the Western
28 District of Washington and others.

1 206. IFFL, Brost, and Capstick were substantial participants in the sales of SGD
2 securities. They served as the brokers or dealers for the sales by SGD. Investors were required
3 to join IFFL before they were offered the securities of SGD.

4 207. Sorenson was a substantial participant in the offer and sales of SGD securities
5 because he owned and directed the activities of the SGD, he reviewed and edited the SGD
6 offering materials, and personally met with prospective investors in Honduras and Canada. In
7 addition, he received directly or indirectly the benefit of the investors' funds.

8 208. Adair was a substantial participant in the offer and sale of SGD securities
9 because as the president of SGD he signed and approved the investment contracts with the
10 various investors, accepted funds from investors on behalf of SGD into his attorney trust
11 accounts, and personally met with prospective investors in Honduras and Canada.

12 209. Werner was a substantial participant in the offer and sale of SGD securities after
13 he became the president of SGD in April 2007, because he authorized the company to sell the
14 securities and accepted funds from investors on behalf of SGD into his attorney trust accounts.

15 210. No registration statement was filed or in effect with the SEC for the offers and
16 sales of the securities of SGD made directly or indirectly by SGD, IFFL, Brost, Capstick,
17 Sorenson, Adair and Werner.

18 211. From approximately October 2001 through November 2004, IFFL, Brost and
19 Capstick, directly or indirectly, offered and sold securities in the form of promissory notes of
20 Quatro to one or more residents of the Western District of Washington and others.

21 212. IFFL, Brost, and Capstick were substantial participants in the sales of Quatro
22 securities. They served as the brokers or dealers for the sales by Quatro. Investors were
23 required to join IFFL before they were offered the securities of Quatro.

24 213. No registration statement was filed or in effect with the SEC for the offers and
25 sales of the securities of Quatro made directly or indirectly by IFFL, Brost, and Capstick.

26 214. Between December 2003 and November 2004, IFFL, Brost, Capstick and
27 Regier, directly or indirectly, offered and sold the securities in the form of promissory notes of
28 Rapid Express to one or more residents of the Western District of Washington and others.

1 215. IFFL, Brost, and Capstick were substantial participants in the sales of Rapid
2 Express securities. They served as the brokers or dealers for the sales by Rapid Express.
3 Investors were required to join IFFL before they were offered the securities of Rapid Express.

4 216. Regier was a substantial participant in the offer and sale of the securities of
5 Rapid Express, because he created the false offering materials used by Brost, and Capstick to
6 offer and sell the securities of Rapid Express.

7 217. No registration statement was filed or in effect for the offers and sales of the
8 securities of Rapid Express made directly or indirectly by IFFL, Brost, Capstick, and Regier.
9 Between July 2004, and December 2005, IFFL, Brost, and Capstick, directly and indirectly,
10 offered and sold securities in the form of preferred shares of Arbour Energy to one or more
11 residents of the Western District of Washington and others.

12 218. IFFL, Brost, and Capstick were substantial participants in the sales of Arbour
13 Energy securities. They served as the brokers or dealers for the sales by Arbour Energy.
14 Investors were required to join IFFL before they were offered the securities of Arbour Energy.

15 219. No registration statement was filed or in effect with the SEC for the offers and
16 sales of the securities of Arbour Energy made directly or indirectly by IFFL, Brost, and
17 Capstick.

18 220. Between July 1, 2004 through August 24, 2005, IFFL, Brost, and Capstick,
19 directly and indirectly, offered and sold the securities of Strategic Metals in the form of
20 preferred shares to one or more resident of the Western District of Washington and others.

21 221. IFFL, Brost, and Capstick were substantial participants in the sales of Strategic
22 Metals securities. They served as the brokers or dealers for the sales by Strategic Metals.
23 Investors were required to join IFFL before they were offer the securities of Strategic Metals.

24 222. No registration statement was filed or in effect with the SEC for the offers and
25 sales of the securities of Strategic Metals made directly or indirectly by IFFL, Brost and
26 Capstick.

27 223. Between November 2002 and November 2007, Merendon Nevada, IFFL, Brost
28 and Capstick, directly and indirectly, offered and sold securities of Merendon Nevada in the

1 form of investment contracts, and promissory notes to one or more residents of the Western
2 District of Washington and others.

3 224. IFFL, Brost, and Capstick were substantial participants in the sales of Merendon
4 Nevada securities. They served as the brokers or dealers for the sales by Merendon Nevada.
5 Investors were required to join IFFL before they were offer the securities of Merendon Nevada.

6 225. No registration statement was filed or in effect with the SEC for the offers and
7 sales of the securities of Merendon Nevada made directly or indirectly by Merendon Nevada,
8 IFFL, Brost and Capstick.

9 226. In November 2007, Werner became the president, director, and controlling
10 shareholder of Bearstone Capital Management Inc., which acted as the general partner in a
11 limited partnership offering. Werner directly or indirectly offered and sold the securities of the
12 limited partnership and received approximately \$3 million from investors.

13 227. No registration statement was filed or in effect with the SEC for the offers and
14 sales of the securities of the limited partnership by Werner.

15 228. The defendants directly or indirectly used the mails or means of instruments of
16 transportation or communication in interstate commerce to offer and sell the securities listed
17 above.

18 229. As a result of these actions, each of the defendants, except for Merendon Int'l,
19 violated the securities registration provisions of Section 5(a) and (c) of the Securities Act.

20 230. SGD, IFFL, Merendon Nevada, Brost, Capstick, Sorenson, Adair, Werner and
21 Regier acted in deliberate disregard of the regulatory requirement that they must file a
22 registration statement before offering or selling securities to investors.

23 231. SGD, IFFL, Merendon Nevada, Brost, Capstick, Sorenson, Adair, Werner and
24 Regier were involved in a scheme to defraud investors as part of their offering of these various
25 securities.

26 232. The defendants' actions resulted in substantial losses to investors.
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1 **IV. IFFL, Brost and Capstick Acted As Unregistered Broker-Dealers In**
2 **Violation of Section 15(a)(1) of the Exchange Act**

3 233. IFFL was incorporated in Alberta, Canada on April 23, 2003. Its head office
4 was located in Calgary, Alberta.

5 234. As described above, IFFL by means of the mails or the means or
6 instrumentalities of interstate commerce effected trades in the securities of SGD, Quatro, Rapid
7 Express, Arbour Energy, Strategic Metals, and Merendon Nevada for the accounts of investors,
8 some of whom resided in the Western District of Washington or other locations in the United
9 States.

10 235. IFFL has never been registered as a broker or dealer with the SEC.

11 236. Brost was the chief executive officer, a director, and president of IFFL at all
12 times material to this Complaint. He controlled its activities.

13 237. As described above, Brost by means of the mails or the means or
14 instrumentalities of interstate commerce effected trades in the securities of SGD, Quatro, Rapid
15 Express, Arbour Energy, Strategic Metals, and Merendon Nevada for the accounts of investors,
16 some of whom resided in the Western District of Washington or other locations in the United
17 States.

18 238. Brost has never been registered as a broker or dealer with the SEC or associated
19 with a broker or dealer registered with the SEC.

20 239. Beginning on or about December 2001, and as described above, Capstick by
21 means of the mails or the means or instrumentalities of interstate commerce effected trades in
22 the securities of SGD, Quatro, Rapid Express, Arbour Energy, Strategic Metals, and Merendon
23 Nevada for the accounts of investors, some of whom resided in the Western District of
24 Washington or other locations in the United States.

25 240. Capstick has never been registered as a broker or dealer with the SEC or
26 associated with a broker or dealer registered with the SEC.

27 241. As a result of these actions, each of the defendants violated the broker-dealer
28 registration provisions of Section 15(a)(1) of the Exchange Act.

1 242. IFFL, Brost and Capstick acted in deliberate disregard of the regulatory
2 requirement that they must register as brokers or dealers before effecting securities transactions
3 for the accounts of others.

4 243. As part of their violation they were involved in a scheme to defraud investors.

5 244. The defendants' actions resulted in the substantial losses to investors.

6 **V. Relief Defendants Received Part of the Ill-gotten Gains from the Scheme**

7 245. Laura Sorenson is the adult daughter of Sorenson.

8 246. Between July 18, 2002 and December 4, 2006, Sorenson directed Adair to pay
9 out of the funds received from investors at least \$205,000 directly to Laura Sorenson.
10

11 247. Between November 29, 2002 and December 13, 2002, Sorenson directed Adair
12 to pay out of the funds received from investors approximately \$95,600 to Tape Productions for
13 the benefit of Laura Sorenson.

14 248. On or about June 9, 2006, Sorenson directed Adair to pay out of the funds
15 received from investors approximately \$360,336 to Washington Mutual for the benefit of Laura
16 Sorenson to pay off the mortgage on her home.

17 249. On or about October 20, 2006, Sorenson directed Adair to pay out of the funds
18 received from investors approximately \$500,000 to Morningstar Films LLC for the benefit of
19 Laura Sorenson.

20 250. Thelma Sorenson is the wife of Sorenson.

21 251. Sorenson directed Adair to pay out of the funds received from investors
22 approximately \$915,560 to Thelma Sorenson.

23 252. Sorenson directed Adair to purchase out of the funds received from investors a
24 watch and other jewelry for Thelma Sorenson valued at approximately \$44,000.

25 **FIRST CLAIM FOR RELIEF**
26 **Fraud – Violations of Exchange Act Section 10(b) and Rule 10b-5**
 [15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5]

27 253. The SEC repeats and realleges paragraphs above.

1 not misleading, or engaged in transactions, practices, or courses of business which operated or
2 would operating as a fraud or deceit upon the purchasers of the securities.

3 258. Defendants Brost, Sorenson, Adair, Capstick, Regier, Werner, IFFL, SGD which
4 is now known as Bahama Resources Alliance Ltd., Merendon Int'l, and Merendon Nevada
5 violated, and unless restrained and enjoined will in the future violate Section 17(a) of the
6 Securities Act.

7 **THIRD CLAIM FOR RELIEF**
8 **Aiding and Abetting Violations of Exchange Act Section 10(b) and Rule 10b-5**
9 **[15 U.S.C. § 78j(b) and 17 C.F.R. § 240.10b-5]**

10 259. The SEC repeats and realleges paragraphs 1 through 204, and 245 through 252.

11 260. In the alternative, the SEC alleges that Sorenson, Adair and Werner aided and
12 abetted violations of Section 10(b) of the Exchange Act and Rule 10b-5.

13 261. The SEC alleges above that Merendon Int'l IFFL, SGD, Merendon Nevada,
14 Brost, Capstick and Regier committed primary violations of Section 10(b) of the Exchange Act
15 and Rule 10b-5, by engaging in a scheme to defraud members of IFFL through the sale of
16 securities of the selected group of companies including SGD and Merendon Nevada which are
17 described above, made untrue statements or omissions of material facts and engaged in acts,
18 transactions and courses of business that operated as a fraud or deceit on the IFFL members.

19 262. As described above, Sorenson knowingly provided substantial assistance to each
20 of the defendants listed in paragraph 251, and aided and abetted their violations of Section
21 10(b) of the Exchange Act and Rule 10b-5.

22 263. Sorenson had a general awareness of his role in the violations.

23 264. As described above Adair knowingly provided substantial assistance to each of
24 the defendants listed in paragraph 251, and aided and abetted their violations of Section 10(b)
25 of the Exchange Act and Rule 10b-5.

26 265. Adair had a general awareness of his role in the violations.

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VI.

Order that Defendants Brost, Sorenson, Adair, Capstick, Regier, and Werner are barred from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act or that is required to file reports pursuant to Section 15(d) of the Exchange Act, pursuant to Section 20(e) of the Securities Act [15 U.S.C. § 77t(e)] and Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)] and the Court's equitable powers.

VII.

Order Relief Defendants Thelma Sorenson and Laura Sorenson to prepare an accounting of all proceeds received directly or indirectly from one or more defendants and to disgorge all ill-gotten gains received directly or indirectly in the form of any benefits of any kind derived from the illegal conduct alleged in this Complaint.

VIII.

Grant such other relief as this Court deems necessary and appropriate.

DATED: June 10, 2010.

Respectfully submitted,

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