UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF FLORIDA
MIAMI DIVISION

In re:

MERENDON MINING (Nevada), INC.
a/k/a Milowe Brost,

Debtor.
_____/

Case No.: 09-11958-BKC-AJC

Chapter 7

MARCIA DUNN, Chapter 7 Trustee

Plaintiff,
v.

Adv. Pro. No.: 09-02518-AJC

MILOWE BROST, ELIZABETH BROST, GARY SORENSON, THELMA SORENSON, LARRY ADAIR, MARTIN WERNER, MERENDON MINING (Colorado), INC., MERENDON MINING (Arizona), INC., MERENDON MINING (California), INC., TRUE NORTH PRODUCTIONS, LLC, CAPITAL ALTERNATIVES, INC., CAPITAL ALTERNATIVES (ASIA) LTD., THE INSTITUTE FOR FINANCIAL LEARNING, GROUP OF COMPANIES, INC., MERENDON MINING CORPORATION, LTD., MERENDON MINING, INC., MERENDON DE HONDURAS S.A. DE C.V., MERENDON DE VENEZUELA C.A., MERENDON DE PERU S.A., MERENDON DE ECUADOR S.A., SYNDICATED GOLD DEPOSITORY S.A. n/k/a BAHAMA RESOURCE ALLIANCE, LTD., CONSUMER DEBT RECOVERY TRUST/ HERITAGE FINANCIAL, S.A., C.D.R.T. PROGRAM, STELLER (STELLAR) TRUST, 360 OR 3SIXTY EARTH RESOURCES, LTD., STERLING TRUST, BASE METALS CORPORATION, STRATEGIC METALS CORPORATION, ARBOR (ARBOUR) ENERGY, INC., EVERGREEN MANAGEMENT SERVICES, LTD, QUATRO COMMUNICATION CORPORATION, ALLUVIAL UNITED INC., BEARSTONE CAPITAL MANAGEMENT INC., BRIDGEWATER & CO. INC., CASCADIA MANAGEMENT SERVICES S.A., EXPEDIA

LOGISTICS, FORTRIS BUSINESS SYSTEMS, INC., NORDIC MERCHANT CREDIT UNION, ONYX TRADING GROUP LLC, PERMA SECURITIES S.A., STELLER MANAGEMENT SERVICES, TENA CAPITAL CORPORATION, TRANISICIONES UNIVERSIAL S.A., WATCHERS INTERNATIONAL TRANSIT LTD., GOLDENTRAIL EQUITY MANAGEMENT LIMITED PARTNERSHIP, GOLDENTRAIL MANAGEMENT CORPORATION, and i E GROUP, INC.

Defendants.
_____/

PLAINTIFF'S MOTION FOR PARTIAL SUMMARY JUDGMENT

Marcia Dunn, the Chapter 7 Trustee for the Debtor, Merendon Mining (Nevada), Inc., by and through the undersigned attorney, pursuant to Rule 7056, Fed. R. Bankr. P., and Rule 56, Fed. R. Civ. P., motions this Court for the entry of a Partial Summary Judgment on:

(A) Count II, Piercing the Corporate Veil, *only* with respect to the five American based Merendon Mining companies: (1) Debtor, Merendon Mining (Nevada), Inc. n/k/a Merendon Mining (Colorado), Inc., a Nevada corporation; (2) Merendon Mining (Colorado), Inc., a Colorado corporation; (3) Merendon Mining (Arizona), Inc., a Nevada corporation; (4) Merendon Mining (California), Inc., a Nevada corporation; and (5) True North Productions, LLC, a Nevada corporation (collectively, the "U.S. Merendon Mining Entities"); and

(B) Count III, Declaratory Action (Property of the Estate and Turnover), declaring that the following described real and personal property is property of the estate by virtue of its possession and/or control by one or more of the U.S. Merendon Mining Entities: (1) title to Discovery Day Mine, California; (2) title to Gold Basin Mine, Dolen Springs, Arizona; (3) title to Black Rose Mine, Jamestown, Colorado; (4) title to Bueno Mine, Jamestown, Colorado; (5) title to Glory Hold Mine, Gilpin County, Colorado; (6) title to the mineral, gas and oil rights

associated with mines (1)-(5) above; (7) title to the equipment and inventory associated with mines (1)-(5) above; (8) title to the gold and finished gold products associated with mines (1)-(5) above; (9) U.S. Bank Account #1-036-5825-8183, Broomfield, Colorado; (10) U.S. Bank Account #1-536-547-8251, Clackamas, Oregon; (11) U.S. Bank Account #2-943-4257-2582, Broomfield, Colorado; and (12) U.S. Bank Account #1-036-5825-8191, Broomfield, Colorado (collectively, the "U.S. Merendon Mining Property") and requiring turnover of the U.S. Merendon Mining Property to the Trustee.

The Trustee asserts that the Complaint [Docket No. 1, Adv. Pro. No.: 09-02518-AJC ("Adversary Proceeding")] together with the Declaration of Paul Garfinkle [Docket No. 1, Exhibit A, Adversary Proceeding], the Affidavit of Barry E. Mukamal, CPA, EFE, CFF ("Mukamal") [Docket No. 1, Exhibit B, Adversary Proceeding], the Substantive Consolidation Order [Docket No. 84, Adversary Proceeding] and the other pleadings on file show that there is no genuine issue as to any material fact and that the plaintiff is entitled to a judgment as a matter of law.

Procedural Status of This Proceeding

1. On February 4, 2009 (the "Petition Date"), Eileen McCabe, Jane Otto, and Diane Kaplan-Berk (the "Petitioning Creditors") filed an Involuntary Petition against the Debtor, Merendon Mining (Nevada), Inc. ("Merendon Mining (Nevada"), requesting an order for relief under chapter 7 of the Bankruptcy Code. [Docket No. 1, Case No.: 09-11958-BKC-AJC (the "Bankruptcy Case")].

2. On June 6, 2009, this Court entered an Order for Relief under chapter 7. [Docket No. 29, Bankruptcy Case].

3. Marcia Dunn (the "Trustee") was appointed as the Chapter 7 Trustee on June 10, 2009 for the benefit of the creditors of the Debtor's estate [Docket No. 30, Bankruptcy Case].

4. On December 15, 2009, the Trustee commenced an Adversary Complaint (the "Complaint") [Docket No. 65, Bankruptcy Case; Docket No. 1, Adversary Case] against the Defendants, including the U.S. Merendon Mining Entities, requesting this Court in relevant part to:

(a) pierce the corporate veil against the U.S. Merendon Mining Entities pursuant to §544(b) of Title 11, United States Code (the "Bankruptcy Code") and Florida common law; and

(b) declare, pursuant to Chapter 86, Florida Statutes, and its federal analogue 28 U.S.C. §2201, that the U.S. Merendon Mining Property in possession of the U.S. Merendon Mining Entities is property of the estate pursuant to §541 of the Bankruptcy Code, and require turnover of said property to the Trustee pursuant to §542 of the Bankruptcy Code.

5. On December 28, 2009, the U.S. Merendon Mining Entities were served with summons and a copy of the Complaint [Docket No. 13, Adversary Case].

6. On January 27, 2010, this Court entered an Order (the "Subcon Order") substantively consolidating, among other Defendants, the U.S. Merendon Mining Entities, *nunc pro tunc*, to the Petition Date [Docket No. 84, Adversary Complaint.

Jurisdiction and Venue

7. This is a core proceeding pursuant to 28 U.S.C. §157(b)(2)(A), and an adversary proceeding pursuant to Federal Rule of Bankruptcy Procedure 7001(1), (7), and (9).

8. This Court has jurisdiction over this proceeding pursuant to 28 U.S.C. §§157(b)(2) and 1334, and 11 U.S.C. §105.

9. Venue is proper pursuant to 28 U.S.C. §1409 and other applicable law.

Overview

10. Debtor was one of five U.S. corporations that operated as a single mining enterprise under the name "Merendon Mining" and were substantially identical to each other.

11. Common principals dominated each U.S. Merendon Mining Entity and used the corporations as mere instrumentalities to perpetuate a ponzi scheme.

Parties to the Fraud

U.S. Merendon Mining Entities

12. Debtor, Merendon Mining (Nevada), is a Nevada corporation that had its principal place of business in Miami Beach, Florida.

13. Merendon Mining (Colorado), Inc. ("Merendon Mining (Colorado)") is a Colorado corporation that had its principal place of business in Broomfield, Colorado.

14. Merendon Mining (Arizona), Inc. ("Merendon Mining (Arizona)") is a Nevada corporation, that had its principal place of business in Las Vegas, Nevada.

15. Merendon Mining (California), Inc. ("Merendon Mining (California)") is a Nevada corporation that had its principal place of business in Las Vegas, Nevada.

16. Merendon Mining (Colorado), Merendon Mining (Arizona) and Merendon Mining (California) are subsidiaries of the Debtor [Affidavit of Mukamal, Docket No. 1, Exhibit B, Paragraph 16, Adversary Complaint].

17. True North Productions, LLC ("True North Productions") is a Nevada corporation that had its principal place of business in Las Vegas, Nevada.

Principal Owners

18. Milowe or Milo Brost ("Brost") is an individual who resides in Alberta, Canada, and is the President of the Debtor. Brost is currently under arrest by the Royal Canadian

Mounted Police ("RCMP") and awaiting criminal charges in Alberta, Canada as a result of this fraudulent scheme.

19. Elizabeth Brost ("Elizabeth") is Brost's ex-wife, and was the co-founder, officer and director of many of the Defendant entities. Elizabeth is a Canadian national residing in Honduras.

20. Gary Sorenson ("Sorenson") is an individual who is the Chief Executive Officer of Merendon Mining Corporation, Ltd., the first Merendon Mining entity, an Alberta, Canada Corporation organized in 1996. Sorenson is currently under arrest by the RCMP and awaiting criminal charges in Alberta, Canada as a result of this fraudulent scheme.

21. Thelma ("Thelma") Sorenson is Sorenson's wife, a director and officer of many of the Defendant entities, and is a Honduran national who resides in Boca Raton, Florida.

22. Sorenson and Brost are partners in the Merendon Mining enterprise and acting together have control and exert dominance over Merendon Mining and each of the U.S. Merendon Mining Entities.

23. Sorenson, and Brost, along with their spouse and ex-spouse, Thelma and Elizabeth, are the primary recipients of the proceeds from this ponzi scheme.

Statement of Facts

24. For ease of reference, Trustee incorporates the facts as set forth in the Complaint [Docket No. 1, Adversary Proceeding], the Affidavits of Paul Garfinkle and Barry Mukumal [Docket No. 1, Exhibits A and B, respectively, Adversary Proceeding], and the Subcon Order [Docket No. 84, Adversary Complaint].

25. Brost and Sorenson were business partners in Merendon Mining, an international gold mining enterprise, and used the business to perpetrate a fraud on investors.

26. Brost and Sorenson raised at least $135 million from investors for the Debtor[1] by offering returns in excess of 30% from various investment opportunities, specifically Merendon Mining, and represented to such investors that every dollar was fully secured by gold reserves owned by Merendon Mining. Overall, Brost and Sorenson raised approximately $162 million ("Total Inflow") overall for the Debtor.

27. However, despite their assertions, Brost and Sorenson used only 5% of the Debtor's Total Inflow on mining properties, equipment and upkeep; and transferred over 80% of this amount or approximately $130 million to affiliates and related parties (detailed below). Meanwhile, Brost and Sorenson used 5% of the Total Inflow to pay back investors with amounts received from new investors [Affidavit of Mukamal, Paragraphs 8, 10 and 11, Docket No. 1, Exhibit B, Adversary Complaint].

U.S. Merendon Mining Entities

28. Prior to 2002, Merendon Mining did not have any assets in the United States. However, that changed in 2002 when Brost was introduced to Paul Garfinkle ("Garfinkle") at an investment workshop Brost held in Fort Lauderdale, Florida.

29. At the time he met Brost, Garfinkle held a Power of Attorney over gold mining properties in Colorado, and had a gold mining opportunity in Colorado. They discussed Merendon Mining acquiring the Glory Hole, also known as Chain-O-Mines, a mine located outside of Denver in Central City, Colorado (the "Glory Hole Mine"). Garfinkle sent Brost geologist reports and information concerning the mining opportunity, maps and other supporting

[1] This amount only includes U.S. bank records of the Debtor. Total inflows to these U.S. accounts were more than $162 million. See Affidavit of Mukamal, Paragraphs 5 and 6, Docket No. 1, Exhibit B, Adversary Complaint. In total, Merendon Mining

documentation. The title to the Glory Hole Mine was in litigation between Harold Caldwell and Judge Robert Barnes.

30. Upon reviewing the information on the Glory Hole Mine, Brost set out to acquire the mine for the Merendon Mining, and said he would fund the litigation as well as the ongoing operations. Brost did not explain how he was going to fund the litigation and operations of the Glory Hole Mine, except that Sorenson and his investment group, through one of their Merendon Mining investment vehicles, would fund the litigation and thereafter develop the mine. Brost and Sorenson funded some of the litigation through an entity called Merendon Group Encumbrance, but it was later evident that the monies to fund the litigation with regard to the Glory Hole Mine and to subsequently acquire additional U.S. mines were coming out of investor money. In particular, the monies used to acquire these mines came from the investors of what eventually turned into the Debtor, Merendon Mining (Nevada), Inc.

31. Glory Hole was later transferred into the name of Sentinel Mining Corp. ("Sentinel"), a Colorado corporation, for which Brost served as an office and director, and Garfinkle was the registered agent. Ward Capstick ("Capstick"), an individual from Seattle, Washington served as the original registered agent for Sentinel, and was Brost's right hand man. Capstick ran the sales operations for all the Brost and Sorenson companies, including all the Merendon Mining ventures.

32. In either late 2003 or early 2004, Brost hired Bradley Regier ("Regier") as his treasurer and chief financial officer (CFO) for Merendon Mining, and ultimately Regier became the CFO for all of Brost's matters.

33. The first Merendon Mining company in the United States, Merendon Mining (Nevada), the Debtor, was formed in Nevada on December 30, 2002, to begin to develop the

Glory Hole Mine and other mining opportunities. However, there were other existing or ongoing companies which were all part and parcel in the overall Merendon Mining, Brost and Sorenson operation. The purpose of the initial U.S. Merendon Mining company was to take over the Glory Hole Mine and enter into contracts with Caldwell. This first Merendon Mining entity was also to be used to acquire another Colorado property called the Silver Plume Mine (the "Silver Plume Mine"), then owned by Abe Barnhart.

34. Sorenson, had his personal lawyer from Fort Lauderdale, Larry Adair, working for and involved with the Debtor, and was involved in its creation and formation.

35. Brost and Sorenson hired another Florida attorney named Martin Werner to represent Brost and Sorenson in various legal matters, including those pertaining to Merendon Mining

36. Merendon Mining (Nevada) was the first of several interconnected and intertwined Merendon Mining corporate entities established in the U.S. for the purposes of acquiring interests in American gold mines and operations, and their related offshore manufacturing or smelting facilities.

37. Merendon Mining (Nevada) was intended to be the holding company for all the U.S. Merendon Mining acquisitions. Brost and Sorensen acted together as sort of co-chief financial and co-chief operating officers, and in such capacity they controlled this and all the other Merendon Mining operations, both in the U.S. and abroad. The two of them were the singular active participants, the directors and the parties in complete control over all of these interconnected and related entities' affairs. All of the properties and companies were under the direct and strict control and supervision of Brost and Sorenson, who along with members of both their families held their interests through closely held partnerships.

38. It was also at this time in 2002 that Brost developed a fund called the "SOD Fund" which provided investors numbered bank accounts from which they could monitor their investment returns from Merendon Mining among others.

39. As of July, 2, 2003 Brost also created a Mining Interest Development Action Strategy (MIDAS) program, and opened a MIDAS Fund office in Fort Lauderdale. Brost and other structurists used that office to conduct sales seminars to potential investors within the U.S.

40. Brost formed Merendon Mining (Colorado) on November 5, 2003, in the State of Colorado. Subsequently, Merendon Mining (Colorado) was to merge into and become part of Debtor. On October 5, 2004, amended and restated Articles of Incorporation were filed with the Nevada Secretary of State changing the name of the Debtor, Merendon Mining (Nevada), Inc. to Merendon Mining (Colorado), Inc., a Nevada corporation. Thus, the Debtor, Merendon Mining (Nevada) n/k/a Merendon Mining (Colorado), a Nevada corporation, and Merendon Mining (Colorado), a Colorado corporation, have identical names, and were intended to be one and the same entity.

41. Brost maintained bank accounts at US Bank in Colorado, and all of the investor monies were initially deposited into those accounts. The funds to acquire each of the American mines for the Merendon Mining companies (in Colorado, Arizona, California and Nevada) came through US Bank in Boulder, Colorado under the Debtor, Merendon Mining (Nevada) n/k/a Merendon Mining (Colorado), a Nevada corporation. Investor funds were deposited, commingled and used to pay a variety of expenses for each of the separate mines owned or to be acquired by each of the separate companies. All the Merendon Mining entities were created as part of Brost's scheme to defraud investors, and were to be operated as a single entity under the Debtor as the umbrella corporation, with the goal of acquiring mining properties, putting them

into operation, getting the gold concentrate, and then sending the gold to Sorensen in Honduras for processing by Merendon Honduras, the refinery owned by Sorenson, where the smelting and manufacturing of the gold would take place.

42. The Debtor, under different corporate umbrellas, would be the entity that acquired the various mining operations. Each of the U.S. Merendon Mining Entities had interests in, acquired, or had contracts to buy various mining properties within the United States.

43. All five of the mines listed on the Debtor's Schedule A were purchased with investor money, raised through the IFFL, placed in the Debtor's accounts at US Bank in Colorado, and contracted for by the Debtor, notwithstanding what corporate entity ultimately acquired title to the mines. The legal descriptions for those mines and their names are attached to the Complaint in Exhibit C, and incorporated by reference herein. The American Mines are the mines listed in the U.S. Merendon Mining Property.

44. The "Discovery Day" Mine located in California was purchased by the Debtor through its wholly owned subsidiary, known as Merendon Mining (California), a Nevada corporation, formed on July 13, 2005. Merendon Mining (Arizona), another Nevada corporation, was formed on August 31, 2008 to acquire the "Gold Basin" mine in Dolen Springs, Arizona. The "Bueno" and "Black Rose" mining properties located in Jamestown, Colorado, were purchased in the name of Merendon Mining (Colorado).

45. While the individuals who physically worked at a particular mine would work solely for that mine and rarely visit or perform work for or at other mines, all of the U.S. Merendon Mining Entities had the same corporate employees, all of whom served the same role and function no matter which entity for which they were performing a particular task. Les Taylor ("Taylor"), an individual who had previously worked with Sorenson in his other operations,

came to work as Director of Mining Operations for all the Merendon Mining companies, particularly the U.S. Merendon Mining Entities.

46. Sorenson and Brost had created Merendon Mining, and the U.S. Merendon Mining Entities were all a part of this large worldwide complex run under the Merendon or Merendon Mining name, whether it was in Canada, the United States, or Central and South America.

47. Brost and Sorenson would form a separate corporation for each of their entities as needed. There was never a clear separation from company to company as Brost and Sorenson considered all of the companies as one and the same enterprise to defraud the investors.

48. There were regular meetings, mine tours, and seminars for investors. At each of these seminars, the investors were told that they would be getting a return on their investment, and that their investments were all backed by gold possessed by Sorenson. However, the investors were never advised as to how or in which Merendon Mining entity the funds were being invested. As far as Brost and Sorenson were concerned, it was all one enterprise whether it was Canada, the United States, or Honduras, and it was all treated, and presented to the investors, as one and the same enterprise.

49. The investors were not given a choice as to which Merendon Mining entity they wanted their money invested. There was no delineation between the four companies - it was all "Merendon Mining." When an investor went to an IFFL meeting, he or she would be solicited to invest in "Merendon Mining," without any distinction between Merendon Mining (Colorado), Merendon Mining (Nevada), Merendon Mining (Arizona), or Merendon Mining (California). Rather, the investor was sold on the singular Merendon Mining enterprise, operated as an umbrella through the Debtor, encompassing the entire American, Canadian and Honduras

companies and their operations, along with other related entities controlled by Brost and Sorenson.

50. There were no oral or written representations or documentation advising any of the investors that their money was being invested in one Merendon Mining entity over another, or otherwise explaining to the investor that their money was being invested to acquire a specific mine. Funds were raised solely from investors with no investment from the principals. Expenses for the mines were paid without discrimination as to which mine was owned by which company. Whether it was the cost to maintain any particular property, to hire a geologist, or retain an attorney for a closing, the principals dipped into the one source of money maintained in the US Bank accounts comprising the monies raised from the investors, regardless of its source, or which company or mine for whose benefit the expenditure was to be made.

51. A review of the Debtor and its affiliates' bank statements and other financial documentation reflects the commingling of investor money.

52. While Brost, Capstick and Regier on their face maintained separate books and records for different companies, the entities were treated as if they were all one enterprise. Within the Merendon Mining scope of companies, there were no separate books and records for the Debtor, Merendon Mining (Colorado), Merendon Mining (Arizona), or Merendon Mining (California).

53. The Merendon Mining corporate insiders completely and routinely disregarded the corporate formalities.

Fraud

54. Notwithstanding that the investor monies were used to finance the acquisition and operations of the five American Mines, only a small amount of the investor money was ever

actually used for the U.S. mining acquisitions. The bulk of the money that was raised to acquire mining interests in the United States was transferred to Sorensen.

55. This is supported by the analysis of the US Bank records conducted by Mukamal, which revealed that the primary source of cash inflows into the US Bank accounts were investor funds, transfers from affiliates, and other unidentified deposits. A significant portion of the cash inflows were by wire transfer; and for each incoming wire the records included the transferee name. The names of the transferees were cross-referenced with a list of investor names to determine which transfers constituted investor funds. While the source of the unidentified deposits could not be ascertained, the vast majority of these were round large dollar amounts (e.g. $200,000.00, $100,000.00), which suggested that they were attributable to investor monies rather than commercial business operations.

56. The majority of the cash outflows from the US Bank accounts were to affiliates and related parties, although there were outflows for the purchase and upkeep of mining assets, and repayments to investors. In the aggregate, the Debtor transferred $128,924,227.28 to the Debtor's principals, affiliates, and related parties ("Related Party Transfers"). Transfers to these recipients totaled $123,796,740.72, which was more than 75% of the total cash inflows into the US Bank accounts of the Debtor.

57. The largest recipients of the Related Party Transfers were:

(a) True North Productions, a Nevada limited liability company for which Brost is the Managing Member ($53,400,346.00);

(b) Larry Adair/Larry Adair, P.A./Larry Adair Trust, the personal lawyer of Sorenson and involved is most aspects of Merendon Mining (Nevada) ($34,171,894.72);

(c) Martin M. Werner/Martin Werner Attorney Trust account, the attorney who represented Brost and Sorenson in various legal matters pertaining to both Merendon Mining and IFFL issues ($32,247,000.00);

(d) Aurelian Consulting, LLC, a Nevada limited liability company, whose members include Capstick and which has the same address as listed for Brost as a member of True North Productions ($2,336,000.00); and

(e) Merendon Mining (Colorado) and Merendon Mining (California) ($875,000.00).

58. Debtor deposited funds into these accounts for further dissemination to other entities, which monies would then flow into different bank accounts around the world controlled by Sorenson.

59. The actual amount of money raised in the operations by Brost and Sorenson, and under their management, was between $1.2 to $5 billion from between 3,000 to 4,000 investors in Canada, the United States and others worldwide.

60. In 2005, Brost, Sorenson and Capstick attempted to overcome legal handicaps presented by an investigation by the Alberta Securities Commission ("ASC") by issuing eight month Promissory Notes to their investors, including almost $150,000,000 from the Debtor itself. Brost and Sorenson restructured the investors' transactions so that their investment would be evidenced by a short term promissory note issued by the Debtor as the maker of the note, to the investor. The investor would advance the funds to Debtor, and it was represented by Brost and Sorensen that these notes would be repaid from the revenue generated by these mines owned by the various Merendon Mining companies.

61. In reality, this was not what happened as no real money was being made from the mining operations. Some investors were paid off out of new money that was raised from new investors. In total, only about $15,000,000 was ever returned to the initial Merendon Mining companies' investors. While there was some minimal development work performed on the mines, Brost and Sorenson basically kept the money for themselves, with most of the funds being siphoned off and funneled to Sorenson, through his refinery, house, and equipment in Honduras.

62. All told, while the promissory notes affiliated with the Debtor represented between $130,000,000 to $150,000,000, Brost and Sorenson have raised between $1.2 billion and $5 billion through their various investment vehicles which is unaccounted for among 4,000 investors within the United States (1,000 participants) and Canada (approximately 3,000 participants).

63. On May 2, 2008, Debtor's Officers and Directors issued a memorandum to the investors indicating Debtor's default on its promissory notes to them, and advised its investors that Debtor, along with its subsidiaries in Colorado, Arizona and California, was changing its name to US-WEST Mining (Nevada) Corporation. In its notice of default, Debtor offered its investors the option to convert their notes to an annuity paid by an insurance company created by an affiliated company or to renew their notes, and then proceeded to describe the litany of then pending government administrative and criminal investigations and proceedings brought against Debtor, its affiliates, its principals, and management.

64. The money raised for the Merendon Mining investment opportunity was used to support the other companies and business opportunities of Sorenson and Brost. The companies for which investor money was raised and went into are those identified on Debtor's Schedule B,

Item # 13, and the schedule attached to the same. Of those funds, some went through US Bank, while other funds reached the companies through different bank accounts and platforms around the world.

Pending Administrative and Criminal Investigations

65. Both Brost and Sorenson have histories dating back to 1998 with the ASC for a number of violations, including fraud, lying to investors and trading in securities while not being registered with the commission.

66. ASC investigations into Canadian Defendants have been ongoing for years, with a number of penalties and trading bans being issued over the past decade.

67. Brost, Sorenson, Regier, and others have not only been sued by the ASC, but are under criminal investigation by both Canadian and United States authorities.

68. The Internal Revenue Service ("IRS"), in conjunction with the Department of Justice ("DOJ"), had been conducting an investigation of the Debtor in connection with the MIDAS program. This investigation then expanded to include the program surrounding the Debtor's issuance of promissory notes to its investors, and the investigation apparently also includes a grand jury investigation brought by the DOJ in the Eastern District of New York.

69. Two civil suits have also been brought in Houston and Seattle by the DOJ against accounting professionals to bar them from promoting the MIDAS program as an unlawful tax scheme involving bogus gold mining deductions involving the Debtor.

70. The Colorado office of the Securities and Exchange Commission (the "SEC") also has a pending investigation against the Debtor, its subsidiaries, affiliates and management, arising from violations of U.S. securities laws arising from the Debtor's fundraising.

71. On March 21, 2008, the State of Washington Department of Financial Institutions, Securities Division, has also brought actions against the Debtor's officers and directors, and other accounting professionals, with respect to the sale of unregistered securities in that state.

72. In March 2008, the Canadian Revenue Agency launched simultaneous raids on international Defendants.

73. As part of a class action lawsuit brought by defrauded investors, on September 22, 2008, a Calgary Court appointed Michael Quilling as Receiver to recover the remaining assets from an international Defendant.

74. On September 15, 2009, Brost was taken into custody and arrested by the Royal Canadian Mounted Police ("RCMP"), at which time an arrest warrant was also issued for Sorenson by the RCMP in connection with this fraudulent scheme.

75. On or about September 30, 2009, Sorenson was also arrested by the RCMP in connection with this scheme.

Memorandum of Law

A. Summary Judgment Standard

Federal Rule of Civil Procedure 56 is based upon the principle that if the court is made aware of the absence of genuine issues of material fact, the court should, upon motion, promptly adjudicate the legal questions which remain and terminate the case, thus avoiding delay and expense associated with trial. *See United States v. Feinstein*, 717 F. Supp. 1552 (S.D. Fla. 1989). "Summary judgment is appropriate when, after drawing all reasonable inferences in favor of the party against whom summary judgment is sought, no reasonable trier of fact could

find in favor of the non-moving party." *Murray v. National Broadcasting Co.*, 844 F.2d 988, (2d Cir. 1988).

The legal standard governing the entry of summary judgment has been articulated by the United States Supreme Court in *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986). In *Anderson*, the Supreme Court stated that the standard for summary judgment mirrors the standard for directed verdict under Federal Rule of Civil Procedure 50(a), which provides that the trial judge must direct a verdict if there can be but one reasonable conclusion as to the verdict. *Id.* at 250. The Court explained that the inquiry under summary judgment and directed verdict are the same: "whether the evidence presents sufficient disagreement to require submission to a jury or whether it is so one-sided that one party must prevail as a matter of law." Id. at 251-2.

B. Burden on Parties

The moving party has the initial "responsibility of informing the ... court of the basis for its motion and of identifying those portions of 'the pleadings, depositions, answers to interrogatories, and admissions on file, together with affidavits if any,' which it believes demonstrate the absence of a genuine issue of material fact." *Celotex v. Catrett*, 477 U.S. 317, 323 (1986).

The burden then shifts to the non-moving party to go beyond the pleadings and designate specific facts showing that there is a genuine issue for trial. *United of Omaha Insurance v. Sunlife Co.*, 894 F.2d 155 (11th Cir. 1990); *Fitzpatrick v. City of Atlanta*, 2 F.3d 1112, 1116 (11th Cir. 1993).

In order to defeat a motion for summary judgment under this standard, the non-moving

party must do more than simply show that there is some doubt as to the facts of the case. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 252, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986). The Court must "avoid weighing conflicting evidence or making credibility determinations." *Hilburn v. Murata Electronics North America, Inc.*, 181 F.3d 1220, 1225 (11th Cir. 1999). Federal Rule of Civil Procedure 56 must be construed not only with regard to the party moving for summary judgment but also with regard to the non-moving party and that party's duty to demonstrate that the movant's claims have no factual basis. *Id.* "The mere existence of a scintilla of evidence in support of the [non-moving party's] position will be insufficient; there must be evidence on which the jury could find for the [non-moving party]." *Id.* Thus, the non-moving party must establish the existence of a genuine issue of material fact and may not rest upon its pleadings or mere assertions of disputed fact to prevent a court's entry of summary judgment. *See First Nat. Bank of Ariz. v. Cities Service Co.*, 391 U.S. 253, 289 (1968).

It is sufficient, as to issues on which the non-moving party will have the burden of proof at trial, for the moving party to simply point out to the court that there is an absence of evidence to support the non-moving party's case. *Fitzpatrick*, 2 F.3d at 1116 (citing *United States v. Four Parcels of Real Property*, 941 F.2d 1428, 1437 (11th Cir. 1991)).

C. Discussion

Count II:
Piercing the Corporate Veil

Courts are required to apply the law of the state of incorporation to corporate veil issues. *In re Moore*, 379 B.R. 284 Bankr. N.D. Tex. (2007). Debtor Merendon Mining (Nevada), Merendon Mining (Arizona), Merendon Mining (California), and True North Productions are each incorporated in Nevada, while Merendon Mining (Colorado) is incorporated in Colorado.

Bankruptcy courts have applied alter ego law to pierce the corporate veil of affiliated entities. *See, e.g., In re National Audit Defense Network,* 367 B.R. 207, 228-30 (Bankr. D. Nev. 2007) (trustee established grounds under Nevada alter ego law to pierce corporate veil of affiliated entities); *In re Phillips*, 139 P.3d 639, 641 (Colo. 2006).

In the instant case, the Complaint, the Declaration of Paul Garfinkle [Docket No. 1, Exhibit A, Adversary Proceeding], the Affidavit of Barry E. Mukamal, CPA, EFE, CFF [Docket No. 1, Exhibit B, Adversary Proceeding] and the Subcon Order establish that each U.S. Merendon Mining Entity was the alter ego of the other under both Nevada and Colorado law. Paragraph 103 and 104 of the Subcon Order stated that "[i]t appears from the record that Brost and Sorenson operated their investment enterprise without any delineation or differentiation between any of the [U.S. Merendon Mining Entities], and investors were not given a choice as to which entity they wanted to invest. The ordinary investor and/or creditor cannot distinguish the properties in which it invested nor can it determine entitlement to a specific entities' generation of revenues. The Debtor appears to have been setup as a holding company for all of the U.S. Merendon Mining acquisitions, with Brost as the primary principal of [the U.S. Merendon Mining Entities]. However, the money raised for the Merendon Mining investment opportunity was allegedly used to support other…Defendants and business opportunities of Brost and Sorenson. Brost and Sorenson utilized investor funds to continue operation of the enterprise as a whole and there appears to be no true segregation of assets and liabilities between the Debtor and [the U.S. Merendon Mining Entities, among others] [Document No. 84, Adversary Complaint]."

Nevada Law

Nevada law provides that "the equitable remedy of 'piercing the corporate veil' is available to a plaintiff in circumstances where the corporation is acting as the alter ego of a

controlling individual. *LFC Mktg. Group, Inc. v. Loomis*, 8 P.3d 841, 845 (Nev. 2000). "While the classic alter ego situation involves a creditor reaching the personal assets of a controlling individual to satisfy a corporation's debt, the 'reverse piercing' situation involves a creditor reaching the assets of a corporation to satisfy the debt of a corporate insider based on a showing that the corporate entity is really the alter ego of the individual." *Loomis*, 8 P.3d at 846.

By first piercing the corporate veil of the Debtor, the Trustee may recover the personal assets of the controlling ownership, including the equity of the other U.S. Merendon Mining Entities. The Trustee may then reverse pierce the remaining U.S. Merendon Mining entities to recover the Meredon Mining Property.

There are three general requirements for application of the alter ego doctrine under Nevada law: (1) the corporation must be influenced and governed by the person asserted to be the alter ego; (2) there must be such unity of interest and ownership that one is inseparable from the other; and (3) the facts must be such that adherence to the corporate fiction of a separate entity would, under the circumstances, sanction fraud or promote injustice. *Polaris Indus. Corp. v. Kaplan*, 747 P.2d 884 (Nev. 1987). It is not necessary that the plaintiff prove actual fraud. It is enough if the recognition of the two entities as separate would result in an injustice. *Gordon v. Aztec Brewing Co.*, 33 Cal.2d 514, 522, 203 P.2d 522, 527 (1949).

"In determining whether a unity of interest exists between the individual and the corporation, courts have looked to factors like co-mingling of funds, undercapitalization, unauthorized diversion of funds, treatment of corporate assets as the individual's own, and failure to observe corporate formalities. These factors may indicate the existence of an alter ego relationship, but are not conclusive. There is no litmus test for determining when the corporate fiction should be disregarded; the result depends on the circumstances of each case." *Kaplan*,

747 P.2d at 886-87 (internal citations omitted).

The Trustee unquestionably meets these requirements to pierce the corporate veil of the U.S. Merendon Mining Entities in Nevada. First, Brost and Sorenson completely dominated and controlled each entity to the extent that the companies had no independent corporate existence and were mere instrumentalities of their owners and thus each other. Brost and Sorenson presented a single picture of Merendon Mining to investors who were unaware of the corporate structure. Even though there were multiple U.S. Merendon Mining entities, there was only one Merendon Mining.

Second, there was such unity of interest and ownership between the U.S. Merendon Mining Entities and Brost and Sorrenson that one was inseparable from the other. Brost and Sorenson funneled investor monies through the different entities to suit their needs, co-mingling funds and creating a maze of intercompany transfers. Each entity was undercapitalized because Brost and Sorenson diverted much of the funds to themselves at the expense of their corporations and investors. Brost and Sorenson failed to observe corporate formalities, did not pay dividends, used few officers and directors and had control over those they did employ, and essentially used the entities as a façade for their own purposes. By moving assets through multiple entities, Brost and Sorenson showed a lot of activity for Merendon Mining, despite never earning promised returns and paying investors returns with new principal.

Third, adherence to the corporate fiction of separate U.S. Merendon Mining Entities would promote injustice. Debtor does not have legal title to the Merendon Mining Property and only has the ability to recover such property for the benefit of the Debtor's estate and defrauded Merendon Mining investors if the Trustee can pierce the corporate veil of the U.S. Merendon Mining Entities. The U.S. Merendon Mining Entities have served frustrate, hinder and delay creditor efforts and further the fraudulent scheme and justice will only be served by piercing the corporate veil for the

benefit of such creditors.

As noted in Paragraph 112 and 113 of the Subcon Order, this Court believes the record supports the allegations that the affairs of the U.S. Merendon Mining Enterprise are so entangled that the only way to provide any recovery to claimants is to recognize that the enterprise is a unitary enterprise and consolidate all assets and liabilities into the Debtor's estates. Further any effort to untangle them will result in damage and threaten recovery for all creditors [Docket No. 84, Adversary Complaint].

Colorado Law

Under Colorado law, a similar three-prong analysis applies to a corporate veil piercing claim. *In re Saba Enterprises, Inc.*, 2009 WL 3049651 (Bankr. S.D. N.Y. September 18, 2009) (applying Colorado alter ego law). First, it must be determined whether the corporation in question is a mere alter ego of the shareholder/parent. An alter ego relationship exists when the corporation is a "mere instrumentality for the transaction of the shareholder's own affairs, and there is such a unity of interest in ownership that the separate personalities of the corporation and the shareholder no longer exist." *In re Phillips*, 139 P.3d at 644 (*quoting Krystkowiak v. W.O. Brisben Co., Inc.*, 90 P.3d 859, 867 n. 7 (Colo. 2004)); *Sheffield Services Co. v. Trowbridge*, 211 P.3d 714, 725-26 (Colo. App. 2009). There are eight factors that are considered in the alter ago analysis, none of which are dispositive: (1) failure to operate the corporation as a distinct business entity; (2) commingling of funds and assets; (3) maintenance of inadequate corporate records; (4) facilitation of insider misuse by the nature and form of the entity's ownership and control; (5) inadequate capitalization; (6) use of the entity as a mere shell; (7) disregard of legal formalities by the parent/shareholder; and (8) use of corporate funds or assets for non-corporate purposes. *See Newport Steel Corp. v. Thompson*, 757 F.Supp. 1152, 1156-57 (D.Colo.1990); *In*

re First Assured Warranty Corp., 383 B.R. 502, 527 (Bankr.D.Colo.2008); *In re Phillips*, 139 P.3d at 644; *Leonard v. McMorris*, 63 P.3d 323, 330 (Colo.2003). No one factor is dispositive in the analysis. *See Newport Steel Corp.*, 757 F.Supp. at 1156.

Second, the court must determine whether "justice requires recognizing the substance of the relationship between the shareholder[/parent] and corporation over the form because the corporate fiction was used to perpetrate a fraud or defeat a rightful claim," *In re Phillips*, 139 P.3d at 644 (internal quotations omitted) (*quoting Contractors Heating & Supply Co. v. Scherb*, 163 Colo. 584, 432 P.2d 237, 239 (1967)); *accord Sheffield Services Co.*, 211 P.3d 714, 2009 WL 1477003 at *5.

Third, the court must evaluate whether disregarding the corporate form will result in an equitable result. *In re Saba Enterprises, Inc.*, 2009 WL at *16; *In re Phillips*, 139 P.3d at 644; *accord In re First Assured Warranty Corp.*, 383 B.R. at 527; *Sheffield Services Co.*, 211 P.3d 714, 2009 WL 1477003 at *5.

As in Nevada, the Trustee meets these requirements under the law of Colorado to reverse pierce the corporate veil of Merendon Mining (Colorado). Merendon Mining (Colorado) is the mere alter ego of Brost and Sorenson and consequently the other U.S. Merendon Mining Entities. The company is a mere instrumentality for Brost and Sorenson and there is such a unity of interest in ownership that the corporate form is rendered meaningless. Further, as stated above, justice requires recognizing the substance of the relationship of a singular Merendon Mining as presented to investors who believed they were investing in a lucrative mining operation. By reverse piercing the corporate veil, equity will be served by providing the estate with assets in order to return some recovery to the investors of this fraudulent scheme for their loss [Subcon Order, Paragraph 119, Docket No. 84, Adversary Complaint].

No Factual Issues for Trial

Since the Complaint, Affidavits and Subcon Order prove that each U.S. Merendon Mining Entity is the alter ego of the other pursuant to Nevada and Colorado law, such entities now have the burden of providing facts beyond the Complaint and supporting affidavits to show there is a genuine issue of material fact. Since the entities have not offered evidence of such facts, there are no issues for trial, and this Court should enter partial summary judgment against the U.S. Merendon Mining Entities in favor of the Plaintiff for Count II, piercing the corporate veil of the U.S. Merendon Mining Entities, adjudicating the Debtor and the U.S. Merendon Mining Entities to be one and the same entity, determining that the U.S. Merendon Mining Entities and their assets are property of the estate pursuant to §541 of the Bankruptcy Code, authorizing the Trustee to administer and liquidate these assets for the benefit of the creditors of the Debtor's estate, substantively consolidating these entities into the Debtor's estate, extending the automatic stay pursuant to §362 of the Bankruptcy Code over these entities and these assets, and enjoining all persons or entities from interfering with the Trustee's administration of these assets.

Count III:
Declaratory Action (Property of the Estate and Turnover)

In Paragraph F of the Subcon Order, this Court ordered that once the Trustee succeeds in piercing the corporate veil of the U.S. Merendon Mining Entities and recovers the Merendon Mining Property, she may use, sell or lease such property for the benefit of the Debtor's bankruptcy estate [Docket No. 84, Adversary Complaint].

Judge Weaver of the Southern District of Florida explained in *In re F & C Services, Inc.*, 44 B.R. 863, 868 (Bankr. Fla. 1984) the well established notion that "property of the Debtor in the possession, custody and control of its alter ego comprises property of the estate at the commencement of the case. 4A Collier on Bankruptcy ¶ 70.15 at 138-139 n. 14 (14th ed. rev.

1978) (power of the Bankruptcy Court in the exercise of its equitable jurisdiction to disregard corporate entities where a corporation is no more than the alter ego of the bankrupt so as to treat the bankrupt's trustee as titleholder of the alter ego's property) and cases cited therein." Since the U.S. Merendon Mining Entities are each the alter ego of the other, property of the U.S. Merendon Mining Entities are an equitable interest of the Debtor in property pursuant to §541 of the Bankruptcy Code, the Trustee is entitled to such property which consists of the Merendon Mining Property.

Since the U.S. Merendon Mining Entities have not provided any response to support a contrary position to that of the Debtor, they have not met their burden of showing there is a genuine issue of material fact with respect to Count II. As a result, there are no issues for trial and the Merendon Mining Entities must turn over the Merendon Mining Property pursuant to §542 of the Bankruptcy Code. As such, the Trustee may use, sell or lease those assets under §363 of the Bankruptcy Code.

WHEREFORE, the plaintiff seeks the entry of a partial summary judgment piercing the corporate veil of the Merendon Mining Entities, adjudicating the Debtor and the U.S. Merendon Mining Entities to be one and the same entity, determining that the U.S. Merendon Mining Entities and their assets are property of the estate pursuant to §541 of the Bankruptcy Code, requiring turnover of such property, or the value of such property pursuant to §542 of the Bankruptcy Code, authorizing the Trustee to use, sell or lease such property pursuant to §5363 of the Bankruptcy Code, substantively consolidating these entities into the Debtor's estate, extending the automatic stay pursuant to §362 of the Bankruptcy Code over these entities and these assets, and enjoining all persons or entities from interfering with the Trustee's administration of these assets.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing was furnished to all parties receiving electronic mail through the Courts CM/ECF system, by U.S. Mail to those parties not on the Court's electronic system, and, in accordance with the Court's Order of December 30, 2009 in the main case, Case No. 09-11958 [D.E. 74], has been posted to http://gray-robinson.com/news.php?ACTION=view&CAT=1&ID=1475, set up for the purposes of providing information on this case, this 10th day of February, 2010.

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