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Memorandum

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2001 FEB 28 A 9:06

DATE: February 22, 2001

TO: Nancy Cole  
Docket Control

FROM: Wendy Coy  
Securities Division

RE: M.G. Natural Resources, Inc.  
Docket No. S-003356A-00-0000  
Internal Routing Distribution

CC: Mabel Aldridge

AZ CORP COMMISSION  
DOCUMENT CONTROL

This is to notify you that the following individuals should be copied on all docketed items for the above-mentioned case.

- Mark Sendrow
- LeRoy Johnson
- Matthew Neubert/ Amy Leeson

Wendy Coy (Staff Attorney)

Terry Nelson (Staff Investigator)

Sharon Fox

Note: The Assistant Attorney General assigned to this matter is: Jennifer Boucek.

Thank you for your cooperation in this matter.

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

2001 FEB 28 A 9:05

1 WILLIAM A. MUNDELL  
2 Chairman  
3 JIM IRVIN  
4 Commissioner  
5 MARC SPITZER  
6 Commissioner

AZ \_\_\_\_\_  
00 \_\_\_\_\_

6 In the matter of )  
7 M.G. NATURAL RESOURCES CORPORATION )  
8 fka Mariah International, Guildmark Industries and )  
9 M.G. Gold Corporation, currently known as )  
10 Xenolix Technologies, Inc. )  
11 34 Maple St. )  
12 Summit, NJ 07901 )  
13 ALVIN CHARLES JOHNSON, JR. )  
14 1930 East Third Street, Suite 11 )  
15 Tempe, AZ 85281, )  
16 Respondents. )

DOCKET NO. S-03356A-00-0000

**NOTICE OF OPPORTUNITY FOR HEARING REGARDING PROPOSED ORDER TO CEASE AND DESIST, FOR ADMINISTRATIVE PENALTIES, AND FOR OTHER AFFIRMATIVE ACTION**

**NOTICE: RESPONDENTS HAVE 10 DAYS TO REQUEST A HEARING**

16 The Securities Division ("Division") of the Arizona Corporation Commission ("Commission")  
17 alleges that Respondents have engaged in acts, practices and transactions, which constitute violations of the  
18 Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities Act").

**I.**

**JURISDICTION**

21 1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona  
22 Constitution, and the Securities Act.

**II.**

**RESPONDENTS**

25 2. M.G. NATURAL RESOURCES CORPORATION fka Mariah International, Guildmark  
26 Industries and M.G. Gold Corporation cka Xenolix Technologies, Inc. ("M.G. NATURAL

1 RESOURCES”), whose last known business address is 34 Maple St., Summit, NJ 07901, was at all  
2 relevant times operating within or from the state of Arizona. M.G. NATURAL RESOURCES is a  
3 Nevada corporation.

4 3. ALVIN CHARLES JOHNSON, JR. (“JOHNSON”), whose last known business address  
5 is 1930 East Third Street, Suite 11, Tempe, AZ, 85281, began providing technical advice to M.G.  
6 NATURAL RESOURCES beginning in about December of 1998. JOHNSON became a director of  
7 M.G. NATURAL RESOURCES beginning in October of 1999. When M.G. NATURAL RESOURCES  
8 changed its name to Xenolix Technologies, Inc. (“Xenolix”) on June 16, 2000, JOHNSON continued as a  
9 director and became a vice president of Technology, Research and Development of Xenolix. JOHNSON  
10 is a major shareholder in M.G. NATURAL RESOURCES. JOHNSON holds a PhD in Geology and  
11 claims to be a self-employed geologist.

12 4. M.G. NATURAL RESOURCES and Xenolix will hereinafter be referred to as “M.G.  
13 NATURAL RESOURCES.”

14 5. M.G. NATURAL RESOURCES and JOHNSON may be collectively referred to as  
15 RESPONDENTS.

### 16 III.

### 17 FACTS

18 6. On May 15, 1997, Mariah International and Guildmark Industries merged with M.G.  
19 Gold Corporation. M.G. Gold Corporation was the surviving corporation. M.G. Gold Corporation,  
20 through a name change, became M.G. NATURAL RESOURCES on November 18, 1998. M.G.  
21 NATURAL RESOURCES, through a name change, became Xenolix Technologies, Inc. on June 16,  
22 2000 to the present.

23 7. Xenolix Technologies, Inc. assumed the assets and liabilities of M.G. NATURAL  
24 RESOURCES when the name changed.

25 8. Initially, M.G. NATURAL RESOURCES claimed to be in the business of exploring  
26 and developing mining property and natural resource opportunities. The focus of the business changed

1 in about December of 1999 to focus on developing technology for the economical extraction of  
2 precious metals.

3 9. M.G. NATURAL RESOURCES was traded on the OTC BB. M.G. NATURAL  
4 RESOURCES became ineligible for quotation as of February of 2000. The stock is now traded on the  
5 pink sheets.

6 10. RESPONDENTS are attempting to develop technology that would allow for the  
7 economical identification and recovery of precious metals from scoria, volcanic cinders or other media.  
8 M.G. NATURAL RESOURCES owns approximately 413 acres of land located near Flagstaff, Arizona.  
9 Situated on this land is a volcanic cinder cone. In addition, M.G. NATURAL RESOURCES owns an ore  
10 processing plant near Winslow, Arizona.

11 11. On or about April 1, 1997, M.G. NATURAL RESOURCES offered and sold stock in  
12 M.G. NATURAL RESOURCES to 71 investors raising approximately \$750,000. Little or no  
13 disclosures were provided to the investors prior to their investment.

14 12. In about April of 1997, M.G. NATURAL RESOURCES offered rescission to the 71  
15 investors in the April 1, 1997 offering. Approximately 18 investors requested a refund totaling  
16 approximately \$250,000. The remaining investors chose to keep their stock in M.G. NATURAL  
17 RESOURCES. The investors were not provided a disclosure document explaining the reasons for the  
18 rescission.

19 13. On or about March 16, 1998, M.G. NATURAL RESOURCES offered one million shares  
20 of stock in M.G. NATURAL RESOURCES to a number of offerees. No sales of the stock were made.  
21 No offering documents were provided to the offerees. The offering was withdrawn when M.G.  
22 NATURAL RESOURCES learned that the use to which the monies were to be applied (*i.e.* development  
23 of another mine property) was no longer viable.

24 14. JOHNSON and Austin Lett are partners of Johnson Lett & Company ("Johnson/Lett"). In  
25 about December of 1998, M.G. NATURAL RESOURCES and Johnson/Lett began negotiations for  
26 M.G. NATURAL RESOURCES to purchase technology from Johnson/Lett. Johnson/Lett purported to

1 have technology, developed by JOHNSON, which would allow for the economical recovery of precious  
2 metals from scoria, volcanic cinders or other media.

3 15. From the time that M.G. NATURAL RESOURCES and Johnson/Lett began to negotiate,  
4 M.G. NATURAL RESOURCES has been utilizing JOHNSON's technology.

5 16. On or about December 9, 1998, M.G. NATURAL RESOURCES offered and sold stock  
6 to at least 42 investors. M.G. NATURAL RESOURCES raised \$995,000 in this offering. Although the  
7 offering documents represented that only accredited investors were allowed to invest, M.G. NATURAL  
8 RESOURCES in fact sold stock to a number of unaccredited investors.

9 17. M.G. NATURAL RESOURCES acquired Johnson/Lett on or about May 10, 1999, for 13  
10 million shares of M.G. NATURAL RESOURCES.

11 18. On or about November 11, 1999, M.G. NATURAL RESOURCES offered and sold stock  
12 for \$165,000 to approximately eight investors comprised exclusively of previous investors or individuals  
13 represented by previous investors.

14 19. In the November, 1999 offering, the focus of the company changed from a mining  
15 company to a technology company. M.G. NATURAL RESOURCES was promoted in this offering as a  
16 "high-technology" company engaged in the research and development of geological and chemical  
17 research. The funds were to be used for the normal operating expenses of M.G. NATURAL  
18 RESOURCES' contract laboratory in Tempe. The laboratory is owned and operated by JOHNSON. In  
19 addition, the funds were to be used for the operating costs and capital equipment purchases at the pilot  
20 plant.

21 20. Although JOHNSON did not speak directly with investors, JOHNSON admitted that he  
22 benefited financially from the sale of stock. JOHNSON knew that the sole source of funds for M.G.  
23 NATURAL RESOURCES was from the sale of stock to investors. Moreover, the sole source of  
24 JOHNSON's salary was from the funds raised through the sale of stock in M.G. NATURAL  
25 RESOURCES. Furthermore, the expenses of JOHNSON's laboratory were paid for from the proceeds of  
26 the sale of stock in M.G. NATURAL RESOURCES.

1           21.     JOHNSON admitted to assisting in the drafting of the technical information contained in  
2 the offering documents that were provided to investors. JOHNSON admitted that he knew the  
3 documents would be provided to investors. In addition, JOHNSON reviewed and approved the technical  
4 information released to the public through the web site and press releases regarding the success of his  
5 technology in finding precious metals in scoria, volcanic cinders or other media.

6           22.     Investors were not told that JOHNSON had been trying since 1980 to obtain precious  
7 metals from volcanic cinders. JOHNSON claimed that he had been successful in extracting precious  
8 metals from scoria, volcanic cinders or other media. However, JOHNSON failed to tell investors that his  
9 technology has never been replicated in a commercially economical system.

10          23.     No investor has received a return on his or her investment from any of the offerings that  
11 were sold.

12          24.     M.G. NATURAL RESOURCES issued press releases beginning on December 1, 1998, to  
13 the present referencing JOHNSON's technology and its ability to obtain precious metals from scoria,  
14 volcanic cinders or other media. The technology would then be used to produce commercial quantities of  
15 precious metals economically. For example, the February 16, 1999, press release stated that the  
16 Johnson/Lett recovery process appears to be economical. The March 15, 1999, press release stated that  
17 Dr. Al Johnson and his associates have proven irrefutably to M.G. management, that gold can be  
18 economically extracted from cinders. The press releases issued on April 21, 1999, and May 10, 1999,  
19 stated that M.G. NATURAL RESOURCES had successfully transformed itself into a profitable natural  
20 resource provider with the potential to redefine the parameters of precious metals extraction.

21          25.     On February 20, 2001, Xenolix, the successor company to M.G. NATURAL  
22 RESOURCES, issued a press release stating that through the "proprietary nanotechnological processing  
23 technology" patented by Xenolix and developed by JOHNSON, it was able to produce non-silver  
24 precious metals from coal combustion products ("CCP"). The Division has been unable to confirm that  
25 non-silver precious metals even exists in CCPs. In fact, the information the Division has obtained,  
26 indicates that if any non-precious metals exist in CCPs it is unlikely to be the 10 – 14 Troy ounces per

1 ton that is represented by Xenolix. In Arizona, the main use of CCP is to make cement/concrete  
2 products.

3 26. M.G. NATURAL RESOURCES is not a registered securities dealer.

4 27. None of the above referenced offerings were registered at the Division or the Securities  
5 and Exchange Commission.

6 **IV.**

7 **VIOLATION OF A.R.S. § 44-1841**

8 **(Offer or Sale of Unregistered Securities)**

9 28. From on or about 1997, Respondent M.G. NATURAL RESOURCES offered, sold or  
10 purchase of securities in the form of stock, within or from Arizona.

11 29. The securities referred to above were not registered pursuant to the provisions of Articles  
12 6 or 7 of the Securities Act.

13 30. This conduct violates A.R.S. § 44-1841.

14 **V.**

15 **VIOLATION OF A.R.S. § 44-1842**

16 **(Transactions by Unregistered Dealers or Salesmen)**

17 31. Respondent M.G. NATURAL RESOURCES offered or sold securities, within or from  
18 Arizona, while not registered as a dealer or salesman pursuant to the provisions of Article 9 of the  
19 Securities Act.

20 32. This conduct violates A.R.S. § 44-1842.

21 **VI.**

22 **VIOLATION OF A.R.S. § 44-1991**

23 **(Fraud in Connection with the Offer or Sale of Securities)**

24 33. In connection with the offer or sale of securities within or from Arizona, Respondent  
25 M.G. NATURAL RESOURCES directly or indirectly: (i) employed a device, scheme or artifice to  
26 defraud; (ii) made untrue statements of material fact or omitted to state material facts which were

1 necessary in order to make the statements made not misleading in light of the circumstances under which  
2 they were made; and (iii) engaged in transactions, practices or courses of business which operated or  
3 would operate as a fraud or deceit upon offerees and investors. In connection with the offer or sale of  
4 securities within or from Arizona, Respondent JOHNSON indirectly: (i) employed a device, scheme or  
5 artifice to defraud; (ii) made untrue statements of material fact or omitted to state material facts which  
6 were necessary in order to make the statements made not misleading in light of the circumstances under  
7 which they were made; and (iii) engaged in transactions, practices or courses of business which operated  
8 or would operate as a fraud or deceit upon offerees and investors. RESPONDENTS' conduct includes,  
9 but is not limited to, the following:

- 10 a) In connection with the offerings of March, 1998, December, 1998 and November, 1999,  
11 M.G. NATURAL RESOURCES failed to disclose that at the time the above referenced  
12 offerings were made, there was a pending lawsuit for \$250,000 filed against M.G.  
13 NATURAL RESOURCES by a former insider.
- 14 b) In connection with the offers and sales of securities on April, 1997, March, 1998 and  
15 December, 1998, M.G. NATURAL RESOURCES failed to provide adequate disclosure  
16 information to the offerees and investors to allow them to make an informed investment  
17 decision at the time investors invested.
- 18 c) In connection with the December 1998 offer and sale of securities, M.G. NATURAL  
19 RESOURCES and JOHNSON failed to disclose to offerees and investors that the  
20 technology upon which the company's future depended had been in development for over  
21 20 years by JOHNSON, director and vice president of Technology, Research and  
22 Development of M.G. NATURAL RESOURCES, and that it had yet to prove  
23 commercially viable.
- 24 d) M.G. NATURAL RESOURCES issued press releases on a regular basis starting from  
25 about the beginning of 1997 and continuing through at least July of 2000. Some of the  
26 press releases misrepresented or otherwise gave the misleading impression that M.G.

1 NATURAL RESOURCES was close to economically producing precious metals from  
2 scoria, volcanic cinders or other media. In fact, there was no basis for such representations  
3 and the company has yet to produce precious metals in commercial quantities through an  
4 economically viable process.

5 e) JOHNSON provided information that was contained in press releases beginning in  
6 December of 1998 and continuing through at least July of 2000. Some of the press  
7 releases represented or otherwise gave the impression that M.G. NATURAL  
8 RESOURCES was close to economically producing precious metals from scoria, volcanic  
9 cinders or other media using the technology developed by JOHNSON. In fact, there was  
10 no basis for such representations and the company has yet to produce precious metals in  
11 commercial quantities through an economically viable process.

12 34. This conduct violates A.R.S. § 44-1991.

13 **VII.**

14 **REQUESTED RELIEF**

15 The Division requests that the Commission grant the following relief against RESPONDENTS:

16 1. Order RESPONDENTS to permanently cease and desist from violating the Securities  
17 Act, pursuant to A.R.S. § 44-2032;

18 2. Order RESPONDENTS to take affirmative action to correct the conditions resulting from  
19 their acts, practices or transactions, including a requirement to make restitution pursuant to A.R.S. § 44-  
20 2032;

21 3. Order RESPONDENTS to pay the state of Arizona administrative penalties of up to  
22 five thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-2036;

23 4. Order any other relief that the Commission deems appropriate.

24 ...

25 ...

26 ...

## VIII.

## HEARING OPPORTUNITY

RESPONDENTS may request a hearing pursuant to A.R.S. § 44-1972 and A.A.C. R14-4-306. A request must be in writing and received by the Commission within 10 business days after service of this Notice of Opportunity for Hearing. Each RESPONDENT must deliver or mail the request to Docket Control, Arizona Corporation Commission, 1200 W. Washington, Phoenix, Arizona 85007. A Docket Control cover sheet must accompany the request. A cover sheet form and instructions may be obtained from Docket Control by calling (602) 542-3477 or on the Commission's Internet web site at [www.cc.state.az.us/utility/forms/index.htm](http://www.cc.state.az.us/utility/forms/index.htm).

If a request for a hearing is timely made, the Commission shall schedule the hearing to begin 20 to 60 days from the receipt of the request unless otherwise provided by law, stipulated by the parties, or ordered by the Commission. If a request for a hearing is not timely made, the Commission may, without a hearing, enter an order against each RESPONDENT granting the relief requested by the Division in this Notice of Opportunity for Hearing.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Shelly M. Hood, ADA Coordinator, voice phone number 602/542-3931, e-mail [shood@cc.state.az.us](mailto:shood@cc.state.az.us). Requests should be made as early as possible to allow time to arrange the accommodation.

Dated this 28<sup>th</sup> day of February, 2001.



Mark Sendrow  
Director of Securities