

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 JEFF HATCH-MILLER, Chairman
4 WILLIAM A. MUNDELL
5 MARC SPITZER
6 MIKE GLEASON
7 KRISTIN K. MAYES

8 IN THE MATTER OF:

9 CENTENARIOS GOLD, INC.
10 5924 North 83rd Street
11 Scottsdale, AZ 85250

ROBERT TIMOTHY WATT aka TIM WATT
5924 North 83rd Street
Scottsdale, AZ 85250

Respondents.

DOCKET NO. S-03584A-05-0000

DECISION NO. 68159

OPINION AND ORDER

12 DATE OF PRE-HEARING CONFERENCE: May 10, 2005

13 DATE OF HEARING: June 23, 2005

14 PLACE OF HEARING: Phoenix, Arizona

15 ADMINISTRATIVE LAW JUDGE: Marc E. Stern

16 APPEARANCES: Robert Timothy Watt, in propria persona; and
17 Mark Dinell, Assistant Chief Counsel of
18 Enforcement, on behalf of the Securities
19 Division of the Arizona Corporation
Commission.

20 **BY THE COMMISSION:**

21 On January 20, 2005, the Securities Division ("Division") of the Arizona Corporation
22 Commission ("Commission") filed a Temporary Order to Cease and Desist ("T.O.") and a Notice of
23 Opportunity for Hearing ("Notice") against Centenarios Gold, Inc. ("CGI"), Robert Timothy Watt
24 aka Tim Watt (collectively the "Respondents") in which the Division alleged multiple violations of
25 the Arizona Securities Act ("Act") in connection with the offer and sale of securities in the form of
26 stock.

27 Respondents were duly served with a copy of the T.O. and the Notice.

28 On April 6, 2005, Respondents filed an Answer and request for a hearing.

1 On April 8, 2005, by Procedural Order, a pre-hearing conference was scheduled to address the
2 issues raised by the T.O. and Notice on May 10, 2005.

3 On May 10, 2005, at the pre-hearing conference, the Division appeared through counsel and
4 Respondent, Tim Watt, appeared on his own behalf. Since the parties were unable to resolve the
5 issues raised in the T.O. and Notice, it was agreed that a hearing should be scheduled.

6 By Procedural Order, a hearing on the T.O. and Notice was scheduled for June 23, 2005.

7 On June 23, 2005, a full public hearing was commenced before a duly authorized
8 Administrative Law Judge of the Commission at its offices in Phoenix, Arizona. The Division
9 appeared with counsel and Respondent, Tim Watt, appeared on his own behalf. Following the
10 conclusion of the hearing, the matter was taken under advisement pending submission of a
11 Recommended Opinion and Order to the Commission.

12 * * * * *

13 Having considered the entire record herein and being fully advised in the premises, the
14 Commission finds, concludes, and orders that:

15 **FINDINGS OF FACT**

16 1. Robert Timothy Watt aka Tim Watt is an individual whose last known address is 5924
17 N. 83rd Street, Scottsdale, Arizona, 85250.¹

18 2. CGI is a Wyoming corporation which was incorporated by Mr. Watt and whose last
19 known address is 5924 N. 83rd Street, Scottsdale, Arizona 85250.

20 3. On January 20, 2005, the Division issued a T.O. and Notice against Respondents, CGI
21 and Mr. Watt, in which the Division alleged multiple violations of the Act in connection with the
22 offer and sale of securities in the form of what were termed "Founders Shares" of stock or in the form
23 of an investment contract termed a "grub stake arrangement" in what was captioned "Centenarios
24 Gold, Inc. Description and Offering Document" ("Offering Document").

25 4. At all times herein, the securities offered by CGI were not registered pursuant to
26 Articles VI or VII of the Act and neither of the Respondents who offered securities within or from
27

28 ¹ Mr. Watt stated that he was formerly an attorney in Wyoming before pursuing a career in "minerals."

1 Arizona were registered as either a dealer or salesman pursuant to Article IX of the Act.

2 5. As evidence in the proceeding, the Division presented testimony and exhibits which
3 were gathered during a proactive investigation by a special investigator with the Division, Mr. Gary
4 Clapper, who used the name "Gary Allen" in his dealings with the Respondents.

5 6. On or about December 22, 2004, Mr. Clapper saw and printed out an electronic ad
6 which appeared in the classified section of azcentral.com on the internet and advertised "Founders
7 Shares offered Mex gold mine near production." The ad also provided Respondents' e-mail address
8 at Yahoo.com and a phone number with a 480 area code to secure further information.

9 7. After reviewing local newspaper ads, Mr. Clapper found a similar print ad in the
10 December 19, 2004, issue of the *Arizona Republic*. The ad was located in a section captioned
11 "Business Financial/Partners/Investors."

12 8. On December 27, 2004, Mr. Clapper, posing as Gary Allen, a prospective investor,
13 sent an e-mail from an undercover Yahoo account to the advertised Yahoo e-mail address for
14 Respondents and requested more information and stating that he was looking for investments for his
15 parents' money.

16 9. Mr. Watt responded to this inquiry on December 27, 2004, by return e-mail in which
17 he described plans to develop a "\$100 million market cap company in a year or so." Mr. Watt went
18 on to warn of the possibility that an early investor "at this stage could lose all his money." Mr. Watt
19 indicated that he was planning "to tie up the properties and do an IPO" and was "only interested in
20 talking to people who find this risk to be acceptable and whose lifestyle will not change if things do
21 not work out as I believe they will."

22 10. The Division also presented evidence gathered by Mr. Clapper in the form of CGI's
23 Offering Document which had been attached to an e-mail from Mr. Watt.

24 11. After receiving the Offering Document, Mr. Clapper contacted the Corporations
25 Division of the Secretary of State's office in Wyoming and learned that CGI had been incorporated in
26 2004 and that Mr. Watt was both an incorporator and a director of the corporation.

27 12. The Offering Document explained that CGI had an option to acquire for \$35,000
28 Minera Tres Centenarios S.A. de C.V. ("MTC"), a Mexican corporation, which has lease/purchase

1 agreements on several mining concessions. These concessions include the right to explore the
2 potential for gold underground in what is termed the "Mesa Mine." The history of the Mesa Mine is
3 described in the Offering Document and dates its origination back to 1908 when exploration efforts
4 were begun by a Colonel Cornell Green who was further described as a "major mover and shaker in
5 Mexico." The Offering Document went on to describe that in excess of \$1 million had already been
6 expended by the Company² and previous owners to prospect for gold in the El Pilar District where
7 the Mesa Mine and the other concessions are located.

8 13. The Offering Document further portrayed the El Pilar District as an area known for its
9 gold and silver mining activities which had been conducted there since colonial times. The Offering
10 Document further described what was termed "the most recent project in the district was the
11 Manhattan Mineral's ("Manhattan") Moris Mine." The Offering Document implied that the Moris
12 Mine, an open pit mine, had been extremely profitable by alleging that it and had produced
13 approximately 500,000 ounces of gold.

14 14. During the course of the Division's investigation, Mr. Clapper testified that he
15 researched Manhattan's Moris Mine and learned that it had been operated in the late 1990s, and had
16 been closed in 1999 resulting in a loss to Manhattan of approximately \$11.5 million. However, no
17 documentation which would substantiate this allegation was offered into evidence.

18 15. CGI's Offering Document fails to disclose that Manhattan totally abandoned the Moris
19 Mine project by the year 2000 and suffered losses.

20 16. According to CGI's Offering Document, Respondent projected a pre-tax profit of
21 \$310 per ounce of gold with gold selling at \$400 per ounce. The Offering Document projected that if
22 200 tons of ore were mined per day, the project would gross \$40,000 per day if gold was selling at
23 \$400 per ounce. Further projecting the benefits of an investment in CGI, the example cited by
24 Respondents would lead one to believe that an after-tax profit of \$20,000 per day could be earned
25 which equates to a total of over \$7 million per year in profits. The Division's investigator found that
26 Respondents failed to furnish any supporting financial documents which would substantiate the

27 _____
28 ² Although this statement appears to reference CGI, later in the proceeding it became clear that CGI had not
expended any funds prospecting for gold.

1 optimistic projections which appeared in the Offering Document.

2 17. Mr. Clapper, during the course of the Division's investigation, reviewed disclosure
3 statements from three other mining companies besides Manhattan as follows: Newmont; Farallon;
4 and Gammon Lake. In reviewing their documentation, the Division's investigator states that
5 disclosure statements were made indicating that foreign currency fluctuations could affect the
6 profitability of the respective mining operations. However, no referenced disclosure documents were
7 presented in evidence to support these allegations.

8 18. In an e-mail to the Division's investigator dated December 29, 2004, Mr. Watt touted
9 an investment in the CGI offering by making statements concerning its purported worth by
10 referencing a "\$2.5 million market cap out of the box. My goal is to have a \$100 million market cap
11 within a year which makes the numbers sound reasonable." However, no supporting financial
12 documentation was provided to the Division's investigator to support Mr. Watt's representations.

13 19. On January 2, 2005, Mr. Watt sent another e-mail to the Division's investigator
14 indicating that thus far the investigator's response was the only one Mr. Watt had received in
15 response to the ad on the internet or in the *Arizona Republic*. Mr. Watt offered the
16 investigator/investor an opportunity to invest his parent's \$35,000 with an option to invest up to
17 \$50,000 "on the same terms that are negotiated with the guys I am dealing with or someone else."

18 20. The Division's investigator taped two telephone conversations with Mr. Watt on
19 January 4 and January 11, 2005.

20 21. During the investigator's initial telephone conversation with Mr. Watt, the investigator
21 portrayed himself as a prospective investor looking to invest approximately \$40,000 to \$50,000 for
22 his parents.

23 22. During this conversation, Respondent Watt referenced the proposal made in CGI's
24 Offering Document where an example was given that, if an investor was interested in participating in
25 the offering, CGI would be receptive to sell a 20% share of the operation for \$500,000 with the
26 purchase price to be paid in installments similar to a construction loan in order to provide the investor
27 an opportunity to see if the project was worthwhile. The investor's initial payment would be
28 \$35,000, which would entitle the investor to purchase 175,000 shares in CGI at \$.20 per share.

1 However, Mr. Watt further indicated that Mr. Clapper, an investor with less than \$500,000, could
2 participate further in the offering by joining another investor and pooling their funds. This would
3 enable the prospective investor to be on the "ground floor" of the offering.

4 23. Based on Mr. Watt's description of how the transaction was to transpire, it is apparent
5 that he had not determined how an investment would culminate or what the final form of ownership
6 interest an investor would receive for his investment in CGI. This fact was further substantiated
7 during the discussion when Mr. Watt referenced a Mexican attorney possibly setting up some form of
8 corporate entity, but went on to disclose that at present, CGI, a Wyoming corporation, could be
9 replaced by a possible Canadian based entity.

10 24. Although it is clear that at the time of Mr. Watt's initial conversation with the
11 Division's investigator that he did not have a distinct plan on how to establish the investment entity,
12 he specified that he (Watt) would be the "prime mover" who would operate the organization.

13 25. As the Division's investigator and Mr. Watt were concluding their initial conversation,
14 the investigator asked what type of return his "parents" could expect from their investment. In
15 response, Mr. Watt indicated "at least . . . \$250,000", but went on to state that the project could be
16 worth up to \$10 million once "we put the package together." This statement appeared to be in
17 furtherance of the possibility that an initial investor's interest could increase tremendously in value if
18 an initial public offering was made in the mining operation purportedly being developed by CGI and
19 Mr. Watt.

20 26. On January 11, 2005, Mr. Watt sent an e-mail to the Division's investigator to "keep
21 you up to date" on negotiations and requested that Mr. Clapper give him a call if he wanted to pursue
22 the project.

23 27. The Division's investigator placed his second phone call to Mr. Watt later in the day
24 on January 11, 2005, where he indicated that his "parents" told him "go ahead and do it." In
25 response, Mr. Watt stated, "Let's, let's say you're, you're in for our deal . . ."

26 28. On January 19, 2005, Mr. Watt sent another e-mail to Mr. Clapper trying to gain a
27 response and wanting to secure his "parents'" \$35,000 investment because Mr. Watt feared losing the
28 property altogether if the option to acquire MTC was not exercised promptly. Mr. Watt also

1 attempted to reassure "Mr. Allen" that his "parents'" funds would not be lost.

2 29. On January 21, 2005, Respondents were served with the Division's T.O. and Notice.

3 30. On January 22, 2005, Mr. Watt sent a final seven page e-mail to the Division's
4 investigator at his undercover Yahoo account.

5 31. In this last e-mail, Mr. Watt explained, in his opinion, he did not disclose that currency
6 fluctuations could affect the profitability of a mining venture in Mexico because he did not believe it
7 was a significant factor to the offering.

8 32. Mr. Watt also explained that he did not discuss the profitability or lack thereof of
9 Manhattan's Moris Mine because he did not know whether it was profitable or not and merely cited it
10 in the CGI Offering Document as the most recent mine in the El Pilar District where gold had been
11 found.

12 33. Lastly, Mr. Watt went on to explain that he really didn't have one plan for the
13 development of the CGI offering and that by advertising in the *Arizona Republic* he was merely
14 seeking to identify "qualified investors with whom I might negotiate a fair agreement which is a no-
15 no."

16 34. Mr. Watt also pointed out that he had explored Arizona law with respect to securities
17 offerings involving mining ventures, and his options were limited under the law. Additionally, he
18 disclosed, due to the limited size of his prospective project, registered broker dealers would not be
19 interested in his proposal.

20 35. According to Mr. Watt, he had been trying to raise money privately for his Mexican
21 gold mining project for more than a year before he was served with the Commission's T.O. and
22 Notice.

23 36. Mr. Watt's original plan had been to form CGI in Wyoming and raise funds there to
24 proceed with the gold mine's development in Mexico. However, at that time, the project did not
25 reach fruition and other than the incorporation of CGI, no additional corporate activity has taken
26 place.

27 37. Mr. Watt testified that CGI's Offering Document was in the form of a rough draft
28 since he had not finalized a definite plan on how to finance the project when it had been attached to

1 an e-mail sent to the Division's investigator.

2 38. Mr. Watt testified credibly that he has personally expended a substantial sum of
3 money to develop the gold mining project that is described in CGI's Offering Document.

4 39. Mr. Watt pointed out that the funds which he referenced that were expended for gold
5 exploration in the area included funds expended by other entities or people who were also attempting
6 to mine for gold in the El Pilar District.

7 40. Mr. Watt acknowledged that he failed to disclose in CGI's Offering Document that he
8 "went broke" mining for gold, or the inherent risks associated with mining for gold.

9 41. In his defense, Mr. Watt pointed out that he had forwarded to Mr. Clapper copies of e-
10 mails exchanged between himself and other individuals who purportedly might be involved in the
11 CGI project showing that raising the funding necessary to back a gold mining project was not an easy
12 task.

13 42. It certainly appears that the optimistic projections cited by Mr. Watt in CGI's Offering
14 Document were based primarily on speculation in the hope that investments would be encouraged
15 and the mine would prove to be profitable.

16 43. Mr. Watt testified in a credible fashion that it was his intention to seek out a limited
17 number of investors to join him in developing either CGI or some other corporation in another
18 jurisdiction "to join me to figure out how to do this bloody thing." (Tr., P. 86, LL 24-25)

19 44. There is no evidence that there were any sales of securities to any investors in the
20 offering made by the Respondents in this proceeding. In fact, the Division investigator's contact with
21 Mr. Watt was the only response received to his print and electronic ads.

22 45. Under the circumstances, after reviewing the evidence adduced during this
23 proceeding, we find that the Division has partially met its burden of proof by showing through a
24 preponderance of the evidence that the Respondents were engaged in a public offering of securities
25 within or from Arizona in the form of either shares of stock or investment contracts. The offering
26 was conducted by an unregistered dealer and/or salesman when Respondents openly advertised in a
27 newspaper of wide general circulation both within Arizona and without Arizona, including exposure
28 via the internet. A violation of the Act neither requires an intentional act by the violator nor the offer

1 to be in a well defined form, which it is obvious is certainly not the case here.

2 46. However, with respect to the allegations of fraud being committed by the
3 Respondents, it is noted that from the initial e-mail communication from Mr. Watt to the Division's
4 investigator, there was a bright light warning given that a prospective investor at this level could lose
5 all of his money and he was further warned that an investor who would find this risk unacceptable
6 should not invest if his lifestyle would be changed by the loss of his investment. In this instance,
7 while we find that a rudimentary unregistered offering by an unregistered dealer and/or salesman
8 took place, we do not find that fraud was committed by the Respondents in conducting this offering
9 before the public in a thoroughly undefined manner. There is insufficient evidence that this sketchy
10 offering was indeed fraudulent considering the manner in which it was portrayed by the Respondents
11 and no expert testimony or substantiating evidence of fraud was either presented or offered to support
12 significant amounts of hearsay evidence in the proceeding. Lastly, the fact that no one actually
13 invested in the offering further mitigates our view of any final sanctions ordered hereinafter.

14 CONCLUSIONS OF LAW

15 1. The Commission has jurisdiction over this matter pursuant to Article XV of the
16 Arizona Constitution, A.R.S. § 40-1801, *et seq.*

17 2. The investment in the form of shares of stock and/or investment contracts offered by
18 Respondents CGI and Mr. Watt were securities within the meaning of A.R.S. § 44-1801(26).

19 3. The securities were neither registered nor exempt from registration, in violation of
20 A.R.S. § 44-1841.

21 4. Respondents CGI and Mr. Watt acted as a dealer and/or salesman within the meaning
22 of A.R.S. § 44-1801(9) and (22).

23 5. The actions and conduct of Respondents CGI and Mr. Watt constitute an offer to sell
24 securities within the A.R.S. § 44-1801(15).

25 6. Respondents CGI and Mr. Watt offered unregistered securities within or from Arizona
26 in violation A.R.S. § 44-1841.

27 7. Respondents CGI and Mr. Watt offered securities within or from Arizona without
28 being registered as a dealer and/or salesman in violation of A.R.S. § 44-1842.

1 8. Respondents CGI and Mr. Watt have violated the Act and should cease and desist
2 pursuant to A.R.S. § 44-2032 from any future violations of A.R.S. §§ 44-1841 and 44-1842 and all
3 other provisions of the Act.

4 9. The actions and conduct of Respondents CGI and Mr. Watt constitute multiple
5 violations of the Act and are grounds for administrative penalties pursuant to A.R.S. § 44-2036.

6 **ORDER**

7 IT IS THEREFORE ORDERED that pursuant to the authority granted to the Commission
8 under A.R.S. § 44-2032, Respondents Centenarios Gold, Inc. and Robert Timothy Watt aka Tim Watt
9 shall cease and desist from their actions described hereinabove in violation of A.R.S. §§ 44-1841 and
10 44-1842.

11 IT IS FURTHER ORDERED that pursuant to the authority granted to the Commission under
12 A.R.S. §44-2036, Respondents Centenarios Gold, Inc. and Robert Timothy Watt aka Tim Watt,
13 jointly and severally, shall pay as and for administrative penalties: for the violation of A.R.S. § 44-
14 1841, \$2,500; and for the violation A.R.S. § 44-1842, \$2,500, for a total of \$5,000.

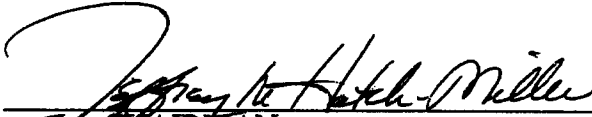
15 IT IS FURTHER ORDERED that pursuant to the authority granted to the Commission under
16 A.R.S. § 44-2036, that Respondents Centenarios Gold, Inc. and Robert Timothy Watt aka Tim Watt,
17 jointly and severally, shall pay the administrative penalty ordered above in the amount of \$5,000
18 payable either by cashier's check or money order payable to the "State of Arizona", and presented to
19 the Arizona Corporation Commission for deposit in the General Fund for the State of Arizona.

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1 IT IS FURTHER ORDERED that if Respondents Centenarios Gold, Inc. and Robert Timothy
2 Watt aka Tim Watt fail to pay the administrative penalty ordered hereinabove, any outstanding
3 balance plus interest at the maximum lawful amount may be deemed in default and shall be
4 immediately due and payable, without further notice.

5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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8 
9 CHAIRMAN

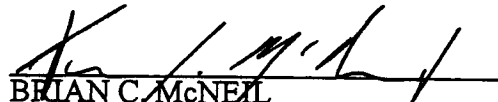
COMMISSIONER

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12 COMMISSIONER


COMMISSIONER


COMMISSIONER

14 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
15 Director of the Arizona Corporation Commission, have
16 hereunto set my hand and caused the official seal of the
Commission to be affixed at the Capitol, in the City of Phoenix,
this 23rd day of Sept., 2005.

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19 BRIAN C. McNEIL
EXECUTIVE DIRECTOR

20 DISSENT _____

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22 DISSENT _____

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1 SERVICE LIST FOR: CENTENARIOS GOLD, INC. et al.

2 DOCKET NO.: S-03584A-05-0000

3 Tim Watt
4 5924 North 83rd Street
5 Scottsdale, AZ 85250

6 Matt Neubert, Director
7 Securities Division
8 ARIZONA CORPORATION COMMISSION
9 1300 West Washington Street
10 Phoenix, AZ 85007

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