

EXCEPTION  
ORIGINAL  
OPEN MEETING AGENDA ITEM



BEFORE THE ~~ARIZONA~~ CORPORATION COMMISSION

12

COMMISSIONERS:

JEFF HATCH-MILLER  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
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2005 SEP 21 A 11: 34

AZ CORP COMMISSION  
DOCUMENT CONTROL

In the matter of:

CENTENARIOS GOLD INC.	)	DOCKET NUMBER S-03584A-05-0000
5190 N. 83 <sup>RD</sup> STREET	)	
SCOTTSDALE, AZ 95250	)	
	)	
TIM WATT AND JANE DOE WATT	)	
5190 N 83 <sup>RD</sup> STREET	)	
SCOTTSDALE, AZ 85250	)	

RESPONDENTS EXCEPTIONS

Although I agree with the conclusion of the Hearing Examiner regarding the fraud allegations, I disagree with his reasoning. I am not looking for mercy. I am looking for justice and would like this case to be disposed of on its merits.

The Hearing Examiner found from the following text:

"The El Pilar District has experienced extensive small underground mining activity since colonial times when the Spanish mined gold and silver out of the many quartz veins in the district. The most recent project in the district was Manhattan Mineral's Moris Mine. It was the first open pit mine in the district and hosted approximately 500,000 ounces of gold averaging 0.06 ounces per ton"

that "Centenarious had indicated that the mine was very profitable" Nothing of the sort was indicated. The Moris mine was merely referenced for historical purposes as one of many mines in the district to indicate to the reader that El Pilar is a district that is known to contain precious metals. When you look for rabbits, you go where rabbits are known to be. The extent of mineralization found in the El Pilar District indicates that it is an exceptional area in which to look for gold.

As a practical matter, I did not know whether the Moris Mine was profitable or unprofitable when I authored the above reference. In my opinion, which should be accepted since I was the only expert to testify, whether it was profitable or unprofitable is totally irrelevant.

Precious metal mines are all different. One vein or breccia pipe might have extremely high-grade gold values while another, within but a few meters, is completely barren or contains different metals. While you can postulate certain items fairly accurately such as

mining and milling costs, you cannot tell if you have a mine until you start defining the mineralization and its geometry.

Profitability of precious metal mines is determined by quite a number of factors with the principal factors being grade and tonnage to which might be added metallurgy, ground conditions, competence of the operator, capital costs, price of metals, cost of labor, supplies, power, etc.

The Moris Mine had the misfortune of coming into production at a time the price of gold descended to \$250 an ounce which was the primary factor for its having lost money. Contributing factors, I understand, were that it did not agglomerate which resulted in substantially less recoveries being made due to finds blinding the fluids in the heap and the fact that it used a contract miner who did not deliver the quantities of ores it had agreed to.

In all probability had it had been in production today with gold prices in the \$450 per ounce range, had agglomerated and done its own mining, it would have made \$100 million. Had it done so, in my view it would have been as irrelevant and misleading to state that it had made \$100 million as it would be to say that it lost \$100 million.

Before the commission upholds the Prosecutors position, it might reflect on what degree of responsibility it is imposing on one making an offering for a mining venture to report on the economics of other mines. Should he report the economics on all mines within 5 miles, 10 miles, 50 miles? What if, as in the case of the Relampago, Santo Nino and Santa Teresa referenced as mines in the district I planned to acquire, there is no written record regarding the economics? How about the dozen or so nearby mines, which were not mentioned. How about elevations? The Mesa Mine is 2,000' in elevation above the Moris Mine, perhaps in a different geological sequence, does this make a difference? What about different types of mineralizing events? Should placer mines be compared to underground or open pit mines? Should open pit disseminated mines (Moris Mine) be compared to underground vein mines (Mesa Mine)?

The second count of fraud alleged was failing "to disclose any risk to an investors from investment in an operation in a foreign country, namely that currency fluctuations may affect the cost that CGI incurs in its operations. Gold is sold throughout the world based on the U.S. dollar price, but mining operating expenses would be incurred in Mexican currency. The appreciation of foreign currencies against the Mexican dollar can increase the costs of gold production in U. S. in dollar terms at mines locations outside the U.S., making such mines less profitable."

In support of its allegation, the Commission's Investigator read into testimony, over my objection, a list of several companies that had inserted language regarding currency fluctuations in prospectuses as proof of its allegation. Some proof!

I suggested at the hearing that currency fluctuations as they relate to gold mining on the scale I intended was an extremely esoteric area which precipitated a discussion. The

Hearing Examiner, the Prosecutor and the Investigator all stated emphatically that they understood the caveat and believed such fluctuations to be a grave risk. Amem, amen, amen they intoned as if all cut from the same cloth, leaving me as the only party in the room with the apparent incapacity to understand the obvious.

Contrary to the omission of not informing the investor of the economics of the Moris Mine, to which I testified it would not even have occurred to me if I had thought about it real hard, I was totally aware of the fact that some, but not all, mining prospectuses contain cautionary language related to currency fluctuations and I purposely left the "currency fluctuation" language out.

I did not include such language in the materials because I do not agree that currency fluctuations are a risk factor, let alone a material concern, and reiterate my statement that it is an extremely esoteric area. I do not understand the language in the caveat or supposed risk and have found none in industry who do. There are scores of foreign mining companies operating in Mexico and I doubt very sincerely that you will find one CEO who spends any time whatsoever worrying about currency fluctuations or considers them to be a risk.

Currencies fluctuate against each other and gold with them in almost perfect harmony. There is little arbitraging potential without being a producer. Even though the U.S. dollar may rise against the Mexican peso, when gold is sold for pesos or dollars, the purchasing power in whichever currency is the same immediately after making the sale. If gold is selling for \$400 per ounce in the U.S. and \$4000 pesos per ounce in Mexico, presumably someone on the street would give you \$4000 pesos for your \$400 because the ratio is 10:1. If you sold an ounce of gold you would receive either \$400 or \$4,000 pesos which you could change on the street into its equivalent of the other currency.

Gold is like a cop on the beat. It keeps countries honest. If countries print too much money, they are punished by gold (and other currencies). I disagree that the U.S. dollar sets the price of gold as the prosecution alleges. The gold price floats against all currencies and is a common denominator that can be used as a hedge against inflation.

If, perchance, the Commission disagrees and finds that the omissions constituted fraud based on the Investigators testimony and the exhibits, the commission must next consider whether the material provided in which the omission was made constituted an offer.

But before discussing whether an offer was made and whether I attempted to sell shares without being a registered broker dealer, in all fairness I would like to address some matters that I view as extremely prejudicial and unwarranted in this case. I do so with the hope that the Commission will recognize them as such and render a decision not tainted by such prejudicial statements.

The prosecution in its pleadings made reference to the facts stated in the materials furnished the investigator stating I hoped to have a \$100 million market cap within a year, that based on certain parameters, the mine would make \$7 million per year after tax profits etc. even though such statements have nothing to do with the specific charges of

fraud made. Since I am charged with having made no material misstatements of fact in the prosecutions petition, only material omissions, I view such inclusions of statements as having been made for the sole purpose of prejudicing the Hearing Examiner and this Commission.

It appears the Hearing Examiner was indeed prejudiced as he echoed the immaterial statements in his findings adding a few of his own indicating that he was strongly influenced by statements made regarding my goal of having a \$100 million market cap within a year, the potential of having after tax profits of \$7 million a year, and a \$2.5 million market cap out of the box etc. and registering his disbelief in several instances.

The Prosecutor has seized on this interest by the Hearing Examiner, making exceptions to that which should never have been considered in the first place. Specifically, the Prosecutor cited the Hearing Examiner's statement regarding the projected profitability of the Mesa Mine stating, "The Division's investigator found that respondents failed to furnish any supporting financial documents which would substantiate the optimistic projections which appeared in the offering document."

The grade and widths of the veins were based on our best estimates of what the ores mined on surface would have been. I know of no method to validate such assumptions and estimates relating to the grade, widths of the vein and tonnage other than to do the work necessary to determine the actual dimensions of the vein and assay for grade. Mining, milling and refining costs were provided based on know costs for refining and estimated costs for mining and milling based on operating experience in Mexico. The only way to determine what the actual costs and profits will be is to start mining the Mesa, if warranted. Since there was no testimony that any of the criteria used in making the financial projections, it would seem that the Hearing Examiner has no basis for his observation

I stand behind each and every statement made. Colonel Green is credited with having placed Cananea into production. Cananea, at 5.1 billion tons, is the largest copper mine in North America by far, and it is still in production. That should qualify him as "mover and shaker" and not a small thinker. If he thought enough of the Mesa Mine to drive a 2,200' foot production drift supported by mule teams that took 30 days to round trip for supplies, one has to believe that he strongly believed that there was a pot of gold at the end of the tunnel.

Additionally, I had the benefit of the maps and geology David Hermiston had developed in the district, all of which was furnished to the investigator. I have been around geologists all my life. I ran an exploration group for about 15 years exploring the Western U.S., Mexico and Central America with from 4 to 12 geologists on staff. I think I know something about geologists. Hermiston is the finest explorationist I have ever encountered based on his past history of finding mines. Most geologists do not find one mine in their lifetimes. Hermiston has found many major mines.

Hermiston believes that the El Pilar District is much better than the Ocampo District, 15 miles away from the Mesa Mine. He states emphatically that the Mesa Mine will recover at least one half ounce gold per ton and speculates that there may be dissemination between the veins creating the environment for a major deposit. He believes that El Pilar will prove to be a much better district than Ocampo and that the targets he has identified could host over 5 million ounces. .

Ocampo is being developed by Gammon Lake Resources (GAM), a group of promoters out of Nova Scotia. It has a market cap of over C\$600 million. Unlike the veins at Mesa where I had five within 1,000' of each other that can be accessed by a common production tunnel 1,000' to 1,300' below surface, its veins are scattered (it recently committed to over 6 kilometers of underground tunnels to access the veins). The topography at Ocampo mandates expensive drilling costs to drill these veins. It has drilled over 150,000 meters at a cost, I would guess, of over \$25 million including its overhead.

My approach at the Mesa Mine would have been entirely different from Gammon's. Since the production tunnel is available, all I would have had to do is extend it for a few more feet to reach the first vein. There is no question but that the vein is there. The gold did rain into the veins on surface. The only question to be answered is its size and grade. If it has ore grade mineralization with decent size veins, I could have it producing 200 tons per day within 6 months with ease at a cost of far less than \$1 million.

If the mine were recovering 100 ounces of gold a day at the costs I estimated, which I believe to be accurate, it would make \$7 million year after taxes. A multiple of 15, low for gold mining companies in today's climate of favorable gold prices, should warrant a \$105 million market cap and that is without taking into consideration the identified potential on the north end of the district.

There are many gold mining companies with far less, in my opinion, in the way of good properties than I would have had at El Pilar, had I been able to acquire the guts of the district, that have market caps in excess of \$100 million.

At El Pilar, I had the opportunity to acquire some good ground in which several targets had been identified by some of the world's most successful explorationists complete with the geology developed by David Hermiston. The targets collectively have the potential, according to Hermiston, to host 5 or more million or more ounces of gold. By acquiring the ground, I would have gained access to a 2,200' production that is very near the first vein, placing me in a position to easily start producing at the rate of 200 tons per day within 6 months if the ores were present. I would have had a beautiful camp from which to operate. It was a very easy project that offered excellent risk/rewards. At 200 tons per day I would have probably been mining for the next 30 years just on ores above tunnel level.

With such a package put together, administered by a very competent operator, namely myself, whose plan

was to actually mine and produce, given a certain amount of publicity and by making the obvious comparison to Ocampo, I believe that my estimates as to initial market cap valuation would be on the conservative side and that a \$100 market cap within a year or so to be a very reasonable expectation and goal. If you take the time to compare what I would have had to other public mining company's assets and market caps, it will become apparent that the valuations I speculated to are not out of line.

The Commission should take notice that all of all these non-related statements made are contained in the Temporary Order to Cease and Desist which was published on the internet. It is bad enough that the prosecutor published his baseless allegations of fraud, but the damage is compounded by the inclusion of the unrelated statements.

A reader will probably infer, just as the Hearing Examiner has, that the statements were obviously included to forward people. For whatever other purpose would they have been included? All anyone who might wish to investigate me will have to do is type in "Tim Watt" and "fraud" and there the TRO will be at the top of the list, forever.

There are plenty of deals out there. Why would anyone want to take the time to look beyond the fact that Arizona has charged me with fraud. Even if I am fully exonerated, the stench will linger. The state of Arizona would not have expended time, money and effort to prosecute me if there were not something to it.

Regretfully, I felt it necessary to address these matters that should not have been included in the TRO.

The Hearing Examiner found that I offered to sell securities within the State of Arizona while not being licensed as a dealer or salesman. This is not true. I had no intention of selling any securities until offering memorandums were filed and did not offer to do so. Under my general plan it was necessary to first file an offering memorandum before selling shares in order that the shares could be registered and become free trading when a 10K is filed with the SEC.

I had a further problem in filing an offering memorandum. Even though I had the project defined complete with all the geology and an agreement worked out with the concession owners to acquire a Mexican Corporation that had a contract to purchase the subject concessions, I had nothing more than an oral agreement to buy the corporation. In short, I had nothing to sell. The owner of the Mexican corporation could have backed out at any time.

I had incorporated in Wyoming, but the anticipated financing had not developed and it was improbable that it would be used as a venue for a parent corporation. The Wyoming corporation had no meetings, issued no shares and no assets. It remained to be determined in what state the corporation would be venued (I was looking for investors in Texas, Colorado, Arizona, New Mexico, California and internationally through the Tribune Herald) and that decision would possibly hinge on in what state(s) the investors live,

what the investors recommendations were and what states provide the best advantages to the corporation and its investors.

Furthermore, even though I was very confident that titles to the concessions were good, I was not prepared to accept any money until I had a title opinion- just another problem to be addressed.

Since I did not have a corporation with assets and in fact did not have any particular structure or plan as indicated in all the exhibits, how could I offer anyone anything other than the opportunity to discuss possibilities of structuring and financing. Since I had no intention of selling shares before filing a offering memorandum when I could lawfully do so as an officer of he company, how can I be found guilty of intending to sell shares without being a broker dealer. If I made no offer to sell shares, how can I be found guilty of acts of fraud?

The prosecutor seems perturbed that the Hearing Examiner did not allow him to include further charges of fraud involving omission of fact regarding my financial status, which had he had moved to add as additional fraud charge during the hearing. Aside from the fact that the addition of fraud charges during the course of a hearing is inherently unfair, if you will again look at the body of evidence you will see that the Investigator was well aware of the fact that I was in a weakened financial condition. There was full disclosure. Why else did I not have the properties tied up? And what bearing would have this had on the success of the project?

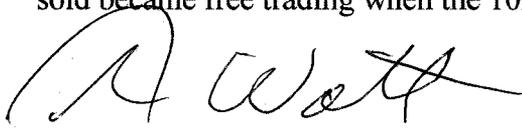
This case has been very perplexing to me. Next to deaths, serious illnesses and my divorce, nothing, at age 66, has happened in my life that has been more disturbing to me that being charged with being a common scam artist and publishing it on the internet. No one had ever before even suggested that I have ever been anything other than totally honest and fair in all my dealings. You do not deal with all of the major mining corporations on the scale that I have involving millions of dollars exploring for minerals in the Western U.S., Mexico and Central American as I have unless you are totally honest and professional.

I do not know where these people are coming from. I am used to working on good projects with imaginative, competent professionals, not people that write with very small pencils and split hairs. If I am the best candidate your staff can come up with in their ever-relenting campaign to stamp out fraud and protect the innocent, the State of Arizona must have better condition that I had thought.

Taking a line from Charles Dickin's Oliver Twist regarding their allegations of fraud, "If the law says that, then the law is an ass, an idiot." The fraud charges are totally bogus.

The prosecutor has a stronger case regarding attempting to sell securities without being a registered broker dealer, but even here he is splitting hairs. There is no question but that I could have sold shares as an officer of the company had I filed an offering memorandum. I had no intention of selling any shares until such a memorandum was filed because, not

only would it have been unlawful, but it was necessary to do so in order that the shares sold became free trading when the 10K was filed.

A handwritten signature in cursive script, appearing to read "Tim Watt". The signature is written in black ink and is positioned above the printed name.

Tim Watt