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Attorney for Montana Securities Department

BEFORE THE STATE AUDITOR
AND COMMISSIONER OF SECURITIES
HELENA, MONTANA

IN THE MATTER OF:)	CASE NO. I 11-08-05-150
)	
CASCADE EXPLORATION, INC.)	
CASCADE WATER HOLDINGS, INC.)	
182 Alec Roy Road)	NOTICE OF PROPOSED AGENCY
Roundup, MT, 59072)	DISCIPLINARY ACTION
Nevada Corporations;)	AND OPPORTUNITY FOR HEARING
)	
GORDON WALTERS, individually, and)	
in his capacity as President and Treasurer)	
of Cascade Exploration, Inc. and President,)	
Treasurer and Director of Cascade Water)	
Holdings, Inc; ANN WALTERS,)	
individually, and in her capacity as)	
Secretary of Cascade Exploration, Inc. and)	
Cascade Water Holdings, Inc; CALVIN)	
STATELEN, individually, and in his)	
capacity as a promoter for Cascade)	
Exploration, Inc. and Cascade Water)	
Holdings, Inc; and DANNY KEGEL,)	
individually, and in his capacity as a)	
promoter for Cascade Exploration, Inc.)	
and Cascade Water Holdings, Inc.)	
)	
Respondents.)	

Staff of the Securities Department (Department) of the office of the State Auditor as Commissioner of Securities of the state of Montana (Commissioner) pursuant to the authority of the Securities Act of Montana, §§ 30-10-101, *et seq.*, MCA (2005) is proposing to the Commissioner that he take specific action against CASCADE EXPLORATION, INC. (Cascade

Exploration), CASCADE WATER HOLDINGS, INC. (Cascade Water), GORDON WALTERS (G. Walters), ANN WALTERS (A. Walters), CALVIN STATELEN (Statelen), and DANNY KEGEL (Kegel) named above for violations of the Montana Securities Act. The Commissioner has authority to take such action under the provisions of §§ 30-10-102, 30-10-107, 30-10-201, 30-10-202, 30-10-301, 30-10-304, 30-10-305, and 30-10-309, (2005) MCA.

In particular, the Department's staff are recommending specific action against Cascade Exploration, Cascade Water, G. Walters, A. Walters, Kegel, and Statelen, including imposition of appropriate fines, appropriate restitution with interest and revocation, suspension, or denial of Respondents' registrations and licenses pursuant to the provisions of the Montana Securities Act.

Service of process is pursuant to § 30-10-107 (8), (2005) MCA.

REASONS FOR ACTION

There is probable cause to believe that the following facts, if true, justify and support the specific actions outlined above.

ALLEGATIONS

1. The time period relevant to this action is January 1, 2004 through January 1, 2007.
2. A formal written complaint was received by the Department on or about August 24, 2005 from a Montana resident identified herein as Complainant. The complaint indicated that Respondents G. and A. Walters, Statelen, and Kegel were offering and selling unregistered securities in the form of stock shares in Cascade Water and Cascade Exploration from Montana and to Montana residents. Additionally, the complaint indicated these same Respondents were offering and selling unregistered securities in the form of bonds from Montana and to Montana residents.

3. The Department researched G. Walters, A. Walters, Statelen, and Kegel on the National Association of Securities Dealers' database to ascertain whether any of these Respondents were registered to sell or recommend the sale of securities in Montana. Neither G. Walters, A. Walters, Statelen nor Kegel were registered to sell or offer securities to or from Montana.

4. The Department researched the various exchanges to ascertain whether Cascade Water or Cascade Exploration was properly registered as a security in Montana. Neither Cascade Water nor Cascade Exploration was properly registered as a security in Montana. Additionally, neither entity was eligible for an exemption to registration pursuant to the Montana Securities Act.

5. The Department requested information relevant to alleged stock sales for Cascade Water and Cascade Exploration from Respondents G. Walters, Kegel, and Statelen. G. Walters refused the certified letter initially sent, but accepted the UPS package that held the Department's letter requesting information. Statelen accepted the certified letter sent by the Department requesting information from him. Kegel accepted the certified letter sent by the Department requesting information from him.

6. The Department sought and received bank records regarding the activities of Cascade Water, Cascade Exploration and G. and A. Walters through investigative subpoenas.

7. The Department received the following information from G. and A. Walters' legal counsel:

- a. a list of investors for both Cascade Water and Cascade Exploration;

- b. a Private Placement Memorandum for Cascade Exploration prepared by J&S Cohn Associates; (Cascade Exploration never filed for an exemption for this private placement with the Montana Securities Department.)
 - c. a business plan for Cascade Water Holdings;
 - d. information that the company bank accounts are currently held at First Security Bank in Roundup, Montana, and that prior to December 2004, they were held at Wells Fargo in Roundup;
 - e. a statement that no salesperson received commissions related to stock transactions;
 - f. a statement that the officers and directors of the company, including G. and A. Walters, accepted funds on behalf of the company;
 - g. a statement that the officers and directors of the company, including G. and A. Walters, prepared and delivered the documentation concerning each stock transaction;
 - h. a statement that no investor received a copy of any company prospectus or other form of disclosure documents; and
 - i. a statement from G. Walters indicating the information provided might be incomplete due to a computer virus.
8. The Department received the following information from Statelen's legal counsel:
- a. a list of payments given to G. and A. Walters for securities purchases with corresponding dates;

- b. a Royalty Assignment Agreement for one quarter of one percent interest in the Sloan Ranch Diamond Plant and/or Kelsey Lake Diamond Plant (located in Colorado);
- c. copies of six stock certificates of Cascade Water Holdings totaling 15,665 shares in Statelen's name;
- d. copy of one stock certificate of 500 shares of Cascade Exploration in Statelen's name;
- e. copy of one stock certificate of 200 shares of Cascade Water Holdings in the name of Eugene Statelen;
- f. a note dated February 4, 2005 by Complainant, stating that Complainant had received \$5,000 in cash from Statelen for Cascade Exploration;
- g. a surety bond guarantee agreement¹ in the amount of \$25,000, indicating the U.S. Small Business Administration issued and backed the bond;
- h. Statelen's letter resigning from the Cascade Exploration board of directors addressed to G. Walters dated June 8, 2005.

9. Between July 6, 2004 and February 4, 2005, Statelen claims to have given G. and A. Walters and the two corporations a total of \$164,450. Although Statelen may have invested as much as \$164,450 into Cascade Exploration and Cascade Water, he received evidence of only \$56,000 worth of shares. Information from G. Walters supported this information.

10. The Royalty Assignment Agreement does not specify the amount paid by Statelen. It simply states that Statelen is assigned one quarter of one percent interest of the

¹ According to Barron's Dictionary of Insurance Terms, Fourth Edition, copyright 2000, the "surety bond guarantee program" is a "program instituted by the Small business Administration (SBA) that guarantees a construction contract bond in the event the issuing surety company suffers a loss. This is an effort by the SBA to encourage the awarding of more construction bids to minority contractors."

purchase proceeds received from buyers of diamonds and/or any other precious gems from the Sloan Ranch Diamond Plant and/or Kelsey Lake Diamond Plant. It further states the agreement is effective for 15 years. Both G. Walters and Statelen signed the agreement on July 28, 2003. Statelen claims to have paid \$5,000 for the royalty rights. To date, Statelen has not received any proceeds from these mines.

11. On November 16, 2004, Statelen paid \$25,000 for some form of evidence of indebtedness which G. and A. Walters entitled “surety bond”. The “surety bond” was to mature in 30 days at a value of \$31,500. Statelen never received any amount from this investment. The surety bond was supposedly issued and guaranteed through the U.S. Small Business Administration. The Department discovered another investor received a similar surety bond from G. Walters during the relevant period.

12. At least two relatives of Statelen bought stock, as did several individuals in the Havre area, where Statelen resides. In his response, Statelen did not provide any information on any securities transactions he offered or sold as was requested in the Department’s October 24, 2005 letter. When asked in a phone conversation on that same date by the Department if he offered or sold shares of Cascade Exploration or Cascade Water Holdings, Statelen answered in the affirmative.

13. Complainant stated that Statelen did as much as 90% of the solicitation of the stock transactions in Cascade Exploration and Cascade Water Holdings.

14. Kegel responded by affidavit to the Department’s October 25, 2005 letter for information on his security transaction. He confirmed that he had served on the board of Cascade Exploration until June 2005. He stated that he was involved in land leasing and acquisition for the company. He gave no reason for his resignation from the board.

15. Kegel indicated he owned shares of Cascade Water, and that these were given to him by G. and A. Walters as compensation for services performed and as a gift.

16. Wells Fargo Bank records indicate Kegel wired at least \$28,000 in a single month to the Cascade Exploration account held at the bank. Other bank records indicate that Kegel wired a total of at least \$50,000 to G. Walters.

17. Information provided by G. Walters indicated that Kegel invested \$9,000 in Cascade Water stock.

18. Kegel stated that all business transactions and record keeping went through G. Walters' office.

19. Kegel failed to provide any information regarding securities he offered or sold.

20. According to the Complainant, Kegel was introduced to Cascade Exploration and Cascade Water through the internet.

21. Kegel was acquainted with Statelen for many years prior to the relevant time period and introduced Statelen to Cascade Exploration and Cascade Water.

22. A Private Placement Memorandum for Cascade Exploration was written by John Cohn of J & S Cohn and Associates in San Diego, California. The 87-page document states that Cascade Exploration is offering up to \$4,995,000 in stock at \$15 per share. A great majority of the memorandum focuses on studies and educational materials regarding energy, diamond mining and energized water. The documents list the following individuals as board members: Gordon Walters, President/CEO; Ann Walters, Secretary/Treasurer/CFO; Calvin Statelen, Director; and John Cohn, Vice President.

23. The memorandum states that the company will be assisted by two experts, Robert Graham (Graham) and Clark Bingham (Bingham). The biography for Graham states he is the founder of Geo-Earth Resources, Inc. and is well-known in the oil and diamond industry. The Department's research on the internet could not find any information on Graham or Geo-Earth Resources. Bingham's biography illustrates his strong educational background, including a degree at Utah State University. However, Utah State University informed the Department that it has no record of Bingham ever attending or receiving a degree from USU.

24. Page 87 of the memorandum, "wiring instructions", was not provided to the Department.

25. G. Walters indicated to the Department that the private placement memorandum was given to seven or eight prospective investors, none of whom bought any stock.

26. The Department's review of bank records indicates there were additional investors not identified by any of the Respondents. Furthermore, these same records indicate investment amounts were significantly underreported by G. Walters in his response to the Department's inquiries. The Department also sent questionnaires to each of the investors identified by G. Walters as part of its investigation into this matter.

27. Documentation provided by G. Walters indicated that there were at least 66 investors in Cascade Water Holdings and Cascade Exploration from at least ten states and two Canadian provinces. G. Walters further indicated that a total of 6,566 shares of Cascade Exploration and 116,725 shares of Cascade Water Holdings were sold. This same documentation also indicated that the total consideration paid for shares of Cascade Exploration and Cascade Water Holdings was approximately \$308,745. A review of the bank information

and documentation provided by investors indicates that this figure is substantially underestimated.

28. Further, according to information provided by G. Walters, 45,635 shares of Cascade Water Holdings were provided to investors who gave consideration for the shares through labor or rent. The Department estimates that the shares provided in exchange for work and labor are valued at approximately \$81,715.

29. On July 20, 2005, the California Department of Corporations issued a cease and refrain order against, *inter alia*, Cascade Exploration and G. Walters. The order alleges that in February 2005, Cascade Exploration offered securities in the state of California, in the form of common stock, to at least one California resident without first effecting proper registration with the Department of Corporations. The order states that these solicitations were via unsolicited (“cold”) calls and e-mail. Cascade Exploration was not then, nor is it now registered to offer or sell securities in the state of California.

30. The information provided by G. Walters indicates two California residents purchased shares of Cascade Exploration in November 2004 with a total investment of \$45,000.

CONCLUSIONS OF LAW

1. The Montana State Auditor is the Commissioner of Securities (Commissioner) pursuant to § 30-10-107, MCA.

2. The Commissioner has jurisdiction over this matter pursuant to §§ 30-10-102, 30-10-107, 30-10-201, 30-10-202, 30-10-301, 30-10-304, 30-10-305, and 30-10-307, MCA.

3. The administration of the Securities Act of Montana, § 30-10-101, *et seq.*, MCA, and is under the supervision and control of the Securities Commissioner, pursuant to § 30-10-107, MCA.

4. The Commissioner shall administer the Securities Department to protect investors, pursuant to § 30-10-102, MCA.

5. Neither G. Walters, A. Walters, Statelen, nor Kegel are Montana-registered salespersons pursuant to §§ 30-10-103(20) and 30-10-201, MCA, nor have they been so registered during the relevant time period.

6. Neither Cascade Water nor Cascade Exploration is a registered security or registered in any other capacity pursuant to Montana's Securities Act, § 30-10-101, *et seq.*, MCA.

7. G. Walters, A. Walters, Statelen and Kegel violated § 30-10-202, MCA, when they offered and/or sold shares of Cascade Water Holdings, an unregistered security, from the state of Montana to at least 58 investors.

8. G. Walters, A. Walters, Statelen, and Kegel violated § 30-10-202, MCA, when they offered and/or sold shares of Cascade Exploration, an unregistered security, from the state of Montana to at least eight investors

9. G. Walters violated § 30-10-202, MCA, when he offered and sold royalty rights to Sloan Ranch Diamond Plant and/or Kelsey lake Diamond Plant, an unregistered security, to at least one Montana investor.

10. G. Walters, A. Walters, Statelen, and Kegel violated § 30-10-201, MCA, when they offered and sold shares of Cascade Water Holdings and Cascade Exploration while unregistered as sales persons in the State of Montana.

11. G. Walters violated § 30-10-201, MCA, when he offered and sold shares of royalty rights to Sloan Ranch Diamond Plant and/or Kelsey lake Diamond Plant to at least one Montana investor without proper registration as a sales person in the state of Montana.

12. G. Walters violated § 30-10-301 (b), MCA, when he made material omissions regarding his inability to provide surety bonds that were issued and guaranteed by the United States Small Business Administration.

13. G. Walters, A. Walters, Statelen, and Kegel violated §30-10-301 (1)(b), MCA, by making material omissions and misrepresentations when they failed to disclose information and provided false information to prospective and actual investors regarding the securities offered and sold.

14. G. Walters, A. Walters, Statelen, and Kegel violated § 30-10-301 (1)(c), MCA, by engaging in acts, practices and course of business that acted as a fraud on investors by offering and selling securities that were not properly registered in Montana while they were not properly registered to offer or sell securities in Montana.

15. Statelen violated § 30-10-304(b), MCA, when he failed to provide information to the Department as requested.

16. Kegel violated § 30-10-304(b), MCA, when he failed to provide information to the Department as requested.

RELIEF SOUGHT

The staff of the Securities Department requests the following relief:

1. Order Respondents to pay restitution to the victims in this case including 10% interest from the date of the wrong-doing pursuant to § 30-10-309, MCA.

2. Order Respondents to pay fines not to exceed \$5,000 for each identifiable violation of § 30-10-301(1)(b), MCA pursuant to § 30-10-305(3), MCA.

3. Order Respondents to pay fines not to exceed \$5,000 for each identifiable violation of § 30-10-301(1)(c), MCA pursuant to § 30-10-305(3), MCA.

4. Order Respondents to pay fines not to exceed \$5,000 for each identifiable violation of § 30-10-201, MCA pursuant to § 30-10-305(3), MCA.

5. Order Respondents to pay fines not to exceed \$5,000 for each identifiable violation of § 30-10-202, MCA pursuant to § 30-10-305(3), MCA.

6. Order Respondents Kegel and Statelen to pay fines not to exceed \$5,000 for each identifiable violation of § 30-10-304, MCA pursuant to § 30-10-305, MCA.

7. Any other relief deemed appropriate and necessary to protect the public from further violations by Respondents.

PUBLIC INTEREST

For any and all of the reasons set forth above, it is in the public interest and will protect Montana investors to do the following:

1. Issue a cease and desist order barring Respondents from further violations of the Act;

2. Order Respondents to pay administrative fines in an amount and upon such terms and conditions as supported by the evidence and determined at hearing of this matter;

3. Order Respondents to pay restitution to Complainants in an amount and upon such terms and conditions, including the statutory 10% per annum interest on the losses Complainants incurred, as supported by the evidence and determined at hearing of this matter; and

4. Take such other actions which may be in the public interest and necessary and appropriate for the protection of Montana investors.

STATEMENT OF RIGHTS

You are entitled to a hearing to respond to this notice, present evidence and arguments on all issues involved in this case. You have a right to be represented by an attorney at any and all stages of this proceeding. You may demand a formal hearing before a hearing examiner appointed by the Commissioner pursuant to the Montana Administrative Procedure Act, §§ 2-4-601, *et seq.*, MCA, including § 2-4-631, MCA. If you demand a hearing, you will be given notice of the time, place and the nature of the hearing.

If you want to contest the proposed action under the jurisdiction of the Commissioner, you must advise the Commissioner within 15 days of the date you receive this notice. You must advise the Commissioner of your intent to contest the proposed action by writing to Roberta Cross Guns, Special Assistant Attorney General, State Auditor's Office, 840 Helena Avenue, Helena, MT 59601. Your letter must clearly indicate whether you demand a hearing, or whether you waive formal proceedings and, if so, what informal proceedings you prefer for disposition of this case. Pursuant to § 2-4-603(2), MCA, you may not request to proceed informally if the action could result in suspension, revocation or any other adverse action against a professional license.

Should you request a hearing, you have the right to be accompanied, represented, and advised by counsel. If the counsel you choose has not been admitted to practice law in the state of Montana, he or she must comply with the requirements of *Application of American Smelting and Refining Co.*, (1973), 164 Mont. 139, 520 P.2d 103.

CONTACT WITH SECURITIES COMMISSIONER'S OFFICE

If you have questions or wish to discuss this matter, please contact Roberta Cross Guns, legal counsel for the State Auditor, at 840 Helena Avenue, Helena, MT 59601, (406)-444-2040

or, within Montana, (800)-332-6148. If an attorney represents you, please make any contacts with this office through your attorney.

POSSIBILITY OF DEFAULT

Failure to give notice or to advise of your demand for a hearing or informal procedure within 15 days will result in the entry of a default order imposing the disciplinary sanctions against you and your license, without further notice to you, pursuant to ARM 6.2.101, and the Attorney General's Model Rule 10, 1.3.214.

DATED this 3rd day of January, 2007.

JOHN MORRISON
State Auditor and ex-officio
Commissioner of Securities and Insurance

By: Roberta Cross Guns
Roberta Cross Guns
Special Assistant Attorney General

CERTIFICATE OF SERVICE

This is to certify that on this 4th day of January, 2007, a copy of the foregoing was served upon the following persons by depositing a copy of the action in the U.S. Mail, certified, return receipt requested, postage prepaid, addressed to:

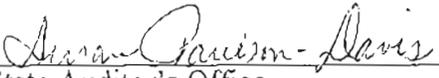
Danny Kegel
HC 67, Box 11
Turner, MT 59542

This is to further certify that on this 4th day of January, 2007, a copy of the foregoing was served upon the following persons by depositing a copy of the action in the U.S. Mail, postage prepaid, addressed to:

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Civil Trial Attorneys

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State Auditor's Office