1 STATE OF WASHINGTON DEPARTMENT OF FINANCIAL INSTITUTIONS 2 **SECURITIES DIVISION** 3 IN THE MATTER OF DETERMINING) Order Number S-04-240-04-SC01 4 Whether there has been a violation of the Securities Act of Washington by: STATEMENT OF CHARGES AND NOTICE OF INTENT TO ENTER ORDER TO CEASE 5 Douglas Baker; AND DESIST AND TO IMPOSE FINES Arizona Idaho Mining, LLC; 6 7 Respondents.) 8 THE STATE OF WASHINGTON TO: Douglas Baker Arizona Idaho Mining, LLC 9 10 STATEMENT OF CHARGES 11 Please take notice that the Securities Administrator of the State of Washington has reason 12 to believe that Respondents, Douglas Baker and Arizona Idaho Mining, LLC have each violated 13 the Securities Act of Washington and that their violations justify the entry of an order of the 14 Securities Administrator under RCW 21.20.390 against each to cease and desist from such 15 violations. The Securities Administrator finds as follows: 16 TENTATIVE FINDINGS OF FACT 17 I. RESPONDENTS 18 1. Douglas Baker ("Baker") is an attorney licensed in Idaho and Kansas. Baker 19 currently is a Kansas resident and resides at 300 Boulder Street, Lawrence, Kansas 66049. 20 During the time relevant to this action, Baker divided his time between Idaho and Kansas. 21 22 23 DEPARTMENT OF FINANCIAL INSTITUTIONS STATEMENT OF CHARGES AND NOTICE OF 24 Securities Division INTENT TO ENTER ORDER TO CEASE AND DESIST PO Box 9033 AND TO IMPOSE FINES Olympia, WA 98507-9033

360-902-8760

2. Arizona Idaho Mining LLC ("AZID") was a limited liability company formed in
Idaho. AZID was to engage in the exploration, development and production of gold and other
precious metals in two mines, one mine located in Arizona and one mine located in Idaho.
II. BACKGROUND
3. Baker, prior to forming AZID, was a partial owner of a mining claim known as
Adair Creek located in the Salmon-Challis National Forest in Custer County, Idaho.
4. On or about February 20, 2001 Baker formed Custer Mining LLC ("Custer") as
an Idaho limited liability company for the purpose of consolidating existing interests in the Adair
Creek mining claim. At formation, Baker held a significant ownership interest in Custer.
5. On or about February 20, 2001 Baker formed AZID. AZID was to acquire 50% of
the authorized and issued stock in Custer, which was to operate the mine in Idaho, and 75% of
the authorized and issued stock in a yet to be formed company Western Metallurgical Company
LLC ("Western") which was to operate the Arizona mine.
6. On or about June 25, 2001, Western was formed as a Nevada limited liability
company. Western was to conduct a mining operation in Mohave County, Arizona. The
Managing Member of Western was John Allison ("Allison").
III. NATURE OF THE OFFERING
7. Beginning in at least March of 2001, Baker offered investment units in AZID for
\$50,000 each to raise a maximum of \$3 million to fund AZID's activities. In Washington, Baker
sold more than \$200,000 worth of investment units to at least six Washington state residents.
According to the offering documents, the minimum needed to begin the program was \$100,000.
8. Some Washington state investors were told by Baker that they could begin to
receive a return of approximately \$8,000 a month on their investment in six to eight months time.
STATEMENT OF CHARGES AND NOTICE OF 2 DEPARTMENT OF FINANCIAL INSTITUTIONS INTENT TO ENTER ORDER TO CEASE AND DESIST AND TO IMPOSE FINES DEPARTMENT OF FINANCIAL INSTITUTIONS Securities Division PO Box 9033 Olympia, WA 98507-9033 360-902-8760

9. Baker presented to the investors assays from Allison, performance charts, and gold purported to be from the mines to potential investors. The assays for both the Arizona mine and the Idaho mine were performed by Allison.

IV. MISREPRESENTATIONS AND OMMISIONS

- 10. The offering documents, in regards to Baker's background, stated that "he has been active in the gold mining exploration and development since 1989. He is intimately familiar with Adair Creek (Custer County, Idaho) claims, having served as General Partner/Managing Partner to those entities which ultimately formed Custer Mining Company." The Washington state investors were relying on Baker's experience and knowledge to produce a return on their investments and were not given enough information to evaluate his background and potential success with the venture. Investors were also not told that the Adair Creek claims had never been profitable.
- 11. According to Baker and the offering documents, the total amount needed to mine the Arizona claim was \$1.5 million. Investors were not told what would happen to the funds if AZID did not raise enough money to commence the entire mining venture. Baker also did not hold the funds in escrow until full capitalization was achieved.
- 12. The season for mining the Adair Creek claims was stated to be between May or June and September or October. The offering documents stated that the potential risks involved with mining included regulation by the National Forest Service, the Mining Health and Safety Administration (MHSA) as well as state and federal agencies. The investors were not told that due to regulations of the agencies, Baker had never been able to realize commercial profitability with the Adair Creek claims and that the risks were ongoing and continuous, leading to an even

shorter mining season. Investors were not apprised of the full circumstances and how risks might
adversely affect the ability to begin the mining process and the profitability of the mines.
V. REGISTRATION STATUS
13. AZID is not currently registered to sell its securities in the state of Washington
and has not previously been so registered.
14. Baker is not currently registered as a securities salesperson or broker-dealer in the
state of Washington and has not previously been so registered.
Based upon the Tentative Findings of Fact, the following Conclusions of Law are made:
CONCLUSIONS OF LAW
The offer or sale of units in Arizona Idaho Mining LLC described above
constitutes the offer or sale of a security as defined in RCW 21.20.005(10) and (12).
2. The offer or sale of said securities by Douglas Baker and Arizona Idaho Mining
LLC is in violation of RCW 21.20.140 because no registration for such offer or sale is on file
with the Securities Administrator.
3. Douglas Baker has violated RCW 21.20.040 by offering or selling said securities
while not registered as a securities salesperson or broker-dealer in the state of Washington.
4. The offer and/or sale of said securities was made in violation of RCW 21.20.010
because, as set forth in the Tentative Findings of Fact, Baker made misstatements of material fact
or omitted to state material facts necessary in order to make the statements made, in light of the
circumstances under which they were made, not misleading.
STATEMENT OF CHARGES AND NOTICE OF 4 DEPARTMENT OF FINANCIAL INSTITUTIONS INTENT TO ENTER ORDER TO CEASE AND DESIST AND TO IMPOSE FINES DEPARTMENT OF FINANCIAL INSTITUTIONS Securities Division PO Box 9033 Olympia, WA 98507-9033 360-902-8760

NOTICE OF INTENT TO ORDER THE RESPONDENT TO CEASE AND DESIST

Based on the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Douglas Baker and Arizona Idaho Mining, LLC; their agents and employees each cease and desist from violations of RCW 21.20.010, RCW 21.20.040, and RCW 21.20.140.

NOTICE OF INTENT TO IMPOSE FINES

Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Douglas Baker shall be liable for and pay a fine of \$15,000.

AUTHORITY AND PROCEDURE

This Statement of Charges is entered pursuant to the provisions of RCW 21.20 and is subject to the provisions of 34.05 RCW. The respondents, Douglas Baker and Arizona Idaho Mining, LLC, may each make a written request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this order.

If a respondent does not request a hearing, the Securities Administrator intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and enter an order to cease and desist permanent as to that respondent. In addition, if Douglas Baker does not request a hearing, the Securities Administrator intends to impose a fine of \$15,000 as to Douglas Baker.

STATEMENT OF CHARGES AND NOTICE OF INTENT TO ENTER ORDER TO CEASE AND DESIST AND TO IMPOSE FINES DEPARTMENT OF FINANCIAL INSTITUTIONS Securities Division PO Box 9033 Olympia, WA 98507-9033 360-902-8760

Dated and Entered this 21st day of March 2005 1 middle, Stevenson 2 3 MICHAEL E. STEVENSON Securities Administrator 4 Approved by: Presented by: 5 K. Reprolds 6 Suzanne Sarason Kate Reynolds 7 Chief of Compliance & Financial Legal Examiner Examinations 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23