

The failure of Java Gold Corporation at placer gold mining in Mongolia

Robin Grayson MSc (1)

*(1) General Director of Eco-Minex International Co. Ltd.
emiweb@magicnet.mn*

ABSTRACT

Java Gold Corporation (JVAG on CDN) attempted large-scale dry pit placer mining on the Toson Terrace at Zaamar in Mongolia. After successful bulk testing in 1996, production forecasts of 10-12,000 ounces were announced by JVAG for the 1997 season. However, only 457 ounces (14.37 kilos) were produced. This study identified the reasons for the chronic failure – a) bad management, b) old second-hand equipment with frequent stoppages and shortage of spares in-country, c) delays due to attempting “modifications” to the processing plant at the same time as production, d) failure to commission the IHC Jig recovery system after transporting it from the Netherlands. The study highlights the many false claims about progress made in News Releases by the management, in clear breach of the Securities Act of Ontario. More false claims were made by investors’ newsletters in Canada, notably the ‘Fagan Report’. Java Gold never recovered from the disaster of the 1997 mining season, with a gold production operating LOSS of 593,951 US\$. At the same time, Armand Beaudoin removed about three-quarters of a million US\$. Drained of cash, Java Gold was paralysed with almost no working capital to start the 1998 season. Mining was delayed and only 18.9 kilos produced, incurring a gold production operating LOSS of 484,343 US\$ leading to a substantial NEGATIVE working capital. Cash-starved, the company had to sell most of its interest in the Toson Terrace in 1999, in order to get interest-free loans to survive. The 1999 mining began late and output was only a little better at 55.7 kilos of gold, most of which was by a New Zealand subcontractor. A serious dispute prevented mining in the 2000 season.

Introduction

This paper addresses how Java Gold Corporation set out to become the world’s leading placer gold producer but failed catastrophically. It set a target of 10-12,000 ounces of gold for 1997, but produced only 14.37 kilos! Java Gold began mining on the Toson Terrace at Zaamar in Mongolia, where the groundwork for success had been completed in 1996 by successful bulk testing with high % gold recovery by a team led by Gary Beaudoin with gold recovery systems brought in from Indonesia (see G.Beaudoin 2000, this volume). Confidence was high and rightly so.

Success in 1997 seemed inevitable and would give Java Gold the vital cashflow needed to sustain and expand its hard-rock exploration efforts in Mongolia and Indonesia and gain credibility for raising funds for large gold dredges in Mongolia.

Instead the 1997 season was a financial disaster for Java Gold Corporation, its subsidiaries, its directors, officers, employees, shareholders, subcontractors and suppliers. It was also a setback for advocates of high-percentage gold recovery systems such as the then-President Ochirbat of Mongolia, and a setback for specialist equipment companies such as Ochir Leasing Ltd. – a UK-Dutch-Mongolian joint venture set up to introduce lease-finance for high percentage gold recovery systems such as Dutch IHC jigs and Canadian Knelson Concentrators.

The failure of Java Gold was a blow for foreign mining investment in Mongolia, especially for Canadian investment. A double blow with the dispute over the Bumbat Mine, a hard rock gold mine also at Zaamar, due to disagreement between a Vancouver-listed Canadian junior mining corporation, Mongolian Gold Resources, and its Mongolian partner, Mongolyiin Alt Corporation. This mine is still closed, and the Canadian partner has changed its name to ‘Tyhee’ (V.TDC).

The fate of Java Gold was much worse and the corporation is currently paralysed – entirely due to its failure at placer mining at Zaamar coupled with highly questionable

management practices contravening Canadian legislation. Instead of now being a major profitable placer gold producer, Java Gold Corporation failed utterly at mining in 1997 and 1998, that it never covering more than a tiny fraction of its operating costs and incurred large unsustainable losses. Meanwhile, many Mongolian placer gold mining companies, with primitive equipment, have made excellent profits.

A shareholder of Java Gold summarised the situation on the Internet: *“Java blew half their brains out in Indonesia, during the pro BreX storm, then marched off to Mongolia in search of cash flow from placer gold. They found it but as usual it was negative cash flow. Turn out the lights...”* - message posted on 12th October 1998 on Stockscape.com Message Board.

Acknowledgements

The author is pleased to acknowledge the many individuals who provided information, corrections and guidance, and sometimes robust rebuke. In particular to Gerrit Bazuin of Ochir Leasing Co. Ltd. (UK-Mongolian JV), my colleagues Dr. Baatar Tumenbayar, Minjin Batbayar, Iain Barclay and Chimed-Erdene in Eco-Minex International Co. Ltd. (another UK-Mongolian JV), Gary Beaudoin (son of the late Armand Beaudoin) and Frank M^cBride.

Production in 1997-1999 by Java Gold

Java Gold Corporation mined in 1997, 1998 and 1999. A dispute in 2000 prevented any mining in the current year. The production record is summarised below:

Year	Troy ounces	Kilos	Gold Sales	Income per gram	Income per ounce
1997 up to end Sept	371	11.50	89,031 US\$		239.97 US \$
1997 whole season	457	14.37 (16.90)	114,700 US\$	7.981 US \$	250.98 US \$
1998 whole season	607	18.90 (16.69)	59,511 US\$	Unclear	Unclear
1999 whole season		55.70 (55.65)	510,450 US\$	9.164 US \$	

Figures in brackets are official Government figures collated by EMI. The reason for the discrepancies is not known.

Production Forecasts by Java Gold Corporation

Gold production fell far short of the 3 forecasts published by Java Gold Corporation:

Forecast	Year	Forecast: ounces	Actual % achieved
1	1997 whole season	10-12,000	4.15%
2	1997 whole season	2-3,000	18.26%
3	1998 whole season	10,000	6.07%

Assembling Placer Licenses & Options in 1996

In 1996, Mongolian Goldfields Corporation (MGC), a private Ontario corporation taken-over the following year by Java Gold, was very active in assembling licenses and options for placer gold mining. A News Release by Stephen Dattels and William Burton stated: *“Mongolian Goldfields Corporation focussed its initial activities on the placer gold business in Mongolia. It imported into Mongolia a portable alluvial testing facility and entered into final testing agreements with Mongolian and state owned companies with the objective of entering into contract mining contracts with them.”* *“Mongolian Goldfields Corporation, through local subsidiaries, has acquired working interests in eluvial and alluvial exploitation licenses with a total resource in excess of 800,000 ounces of gold.”*

Commitments by MGC in 1996 for placer gold licenses were substantial, and included:

A-001 Toson Alluvial Mining License	570,672 US\$
A-066 Gazar Toson Mining License	1,000,000 US\$
Mineral properties – placer	2,665,264 US\$

The sum of 570,672 US\$ for A-001 Toson Alluvial License had been paid in full by MGC prior to the takeover by Java Gold, but an 800,000 US\$ payment on the Gazar Toson license (=Toson Terrace) was still outstanding according to the 1997 accounts of Java Gold. This was later paid in full by Java Gold.

Study by EMI has not found what assets are those referred to above as “*Mineral properties – placer*” which incurred the expenditure of 2,665,264 US\$ by MGC. By the time of its takeover in 1997 by Java Gold, MGC “*control... three placer gold licenses and supporting capital assets in the Zaamar valley of Northern Mongolia*”. An announcement on an assessment of the placer gold potential of MGC was made by William Burton on behalf of Java Gold: “*Java Gold Corporation announced further today that the estimated indicated alluvial gold resource of some 800,000 ounces of Mongolian Goldfields Corporation is based on Mongolian state geological records and audited by Alcon Limited in 1996 and further internal engineering studies and field test work conducted by Mongolian Goldfields Corporation during the summer of 1996 utilising a 75 cubic metre per hour gold recovery test plant.*”

William Burton claimed the indicated alluvial resources of MGC to be 807,116 ounces:

Toson Alluvials	405,132 ounces (State Geological Dept)
Toson Terraces	215,000 ounces (State Geological Dept records & MGC field tests in '96)
TAS Alluvials	186,984 ounces (State Geological Dept records)

Preparations in early 1997 for Placer Gold Mining

In early 1997, a major emphasis was placed by Java Gold on realising the production potential for placer mining of the licenses controlled by MGC, once the takeover had been completed. The takeover offer was made at the start of April: “*On 3rd April 1997 an offer was made by Java Gold Corporation to acquire all the shares of Mongolian Goldfields Corporation.*” The take-over was completed on 28th April 1997 when Java Gold announced that 100% of the shares of MGC had been acquired.

According to a News Release by Stephen Dattels and William Burton: “*Mongolian Goldfields Corporation will commence initial mining of these resources in the Spring of 1997.*” A second News Release by Stephen Dattels and William Burton was specific: “*Mongolian Goldfields Corporation will operate two plants on these dry alluvials beginning in May with a planned output of 12,000 ounces in 1997.*” A further News Release by William Burton claimed: “*Mongolian Goldfields Corporation will have two production plants in operation during 1997 producing gold from the Toson Terraces (dry alluvials) and will be doing additional resource and reserve definition for the Toson Alluvials for the purpose of upgrading the gold resource to a higher category.*”

On 15th May 1997, William Burton (BB) answered phone questions by a Java Gold shareholder, Ron Everest (RE), and the conversation were posted on the Silicon Investor website:

BB: “*We will be setting up an alluvial process on dry terraces for Java Gold Corporation interests this year. This uses water from the essentially dry riverbed. We do have water there and will reuse the same water to create a placer operation. Our costs will be in the 100 US\$ range, much below MGR (Mongolian Gold Resources) costs.*”

RE: “*Where is the gold coming from in the alluvials, will you search the source?*”

BB: “*The gold is coming from quartz veinlets. At the site we will concentrate on the alluvials only.*”

The site for mining was the Toson Terrace A-066 Mining License, now renumbered A-184.

Claim about “Most Modern Alluvial Equipment Available”

According to a News Release by William Burton on behalf of Java Gold: *“the most modern alluvial equipment available”* was to be used, the full quote being as follows: *“Through its acquisition of Mongolian Goldfields Corporation, Java has acquired interests in two gold fields. In northern Mongolia initial alluvial gold production using the most modern alluvial equipment available, including Knelson concentrators, will begin in mid 1997.”* Furthermore, *“Recovery is expected to increase by at least 25% over previous methods.”*

However the equipment was NOT strictly speaking the *“most modern alluvial equipment available”*, but at least 10 years’ old, second-hand. In reality it was a *“Bulk Testing Plant modified to 60m³/hour max”* according to Gary Beaudoin who operated the original Bulk Testing Plant.

Favourable Setting of the Toson Mine

The geology and location of the planned gold mine are extremely favourable to success. The Toson Terrace is in many ways an ideal site for mining. Plentiful water was available nearby and an existing spur from the State grid provided electricity on-site. Ground conditions were excellent, the Toson Terrace being open steppe grassland amenable to unimpeded movement of mining plant. No terrain problems such as rocky areas, steep slopes, waterlogged areas or forests were present. The deposit has a remarkable 360° “elbow room” for mining operations, in contrast to most other placer mines of the world which have constraints on access, haul roads, siting of overburden stockpiles etc.

The location is in the Zaamar Goldfield, where many gold mines, both dry-pit and dredges, were already active and successful. The planned site – Toson Terrace – had already been successfully mined by Gazar Toson Ltd. for 4 years and had produced 172.76 kilos of gold in the previous year.

The Toson Terrace was perhaps the best-researched mine-site in Mongolia. As well as having a large database of old exploration results, the geology and engineering properties of the deposit had been recently demonstrated by Golden Tiger Corporation in 1996, including successful use of high % gold recovery systems (see G.Beaudoin 2000, this volume).

The scene was set for a successful mine in 1997 – in fact it proved to be a disaster.

Start of Gold Production in 1997

On 9th June 1997, Stephen Dattels and William Burton announced on behalf of Java Gold that full production was now being achieved on the Toson Terrace: *“The Company’s two gold production plants have arrived at the Gazar property in the Zaamar Valley of Mongolia. Commissioning of the plants began on 25th May 1997 and full production is now being achieved.”*

This start date and location was confirmed in an end-of-season report by Armand Beaudoin on behalf of Java Gold: *“In June 1997, the Company commenced placer gold mining operations on its 100 percent owned Gazar License in the Zaamar Valley in northern Mongolia.”*

At the start of the mining activity, the mood of Stephen Dattels and William Burton was not only positive but expansive: *“A third plant is being planned for later this season – to be deployed on additional properties acquired in the Zaamar area.”*

Stephen Dattels and William Burton explained some of the background: *“Java Gold Corporation acquired a 100% interest in the Gazar license in December 1996. The drill indicated recoverable gold resources calculated by the Company from prior Mongolian Government surveys as approximately 225,000 ounces. The reserves lie in dry terrace alluvials 100 to 400 metres from the current course of the Tuul river.”* *“A stripping ratio of 2.53 to 1:00 is required to reach the pay zone which ranges from 1.3 to 3.6 metres in thickness.”*

Java Gold – Photographs of Processing Plant at Toson Mine in 1997



Fig.1: Assembling the trailer-mounted set of 3 Knelson Concentrators with the second trailer with the trommel at the start of the 1997 season. (photographer: Iain Barclay)



Fig.2: Arrival of the trommel at Toson Mine at the start of the 1997 season, added to the Knelsons (see Fig.1). (photographer: Iain Barclay)



Fig: 3 Arrival of the Chinese second-hand rice conveyor at the start of the 1997 season. (photographer: Iain Barclay)



Fig.4: Temporary configuration of the Processing Plant at the start of the 1997 mining season, with hired helicopter overhead. (photographer: Iain Barclay)



Fig.5: IHC Jig ready for trucking from Barmash JSC in Ulaanbaatar to the Toson Mine, at the start of the 1997 mining season. (photographer: Iain Barclay)

Java Gold – Acute Problems in Planning & Equipment

From the outset, directors of Java Gold claimed in official News Releases that the Toson Mine would be a large producer even in its first year. It is easy to be critical after the event but, in the opinion of the writer, the venture was doomed from the start to failure for the following reasons.

Origins as a ‘Bulk Testing Pilot Plant’

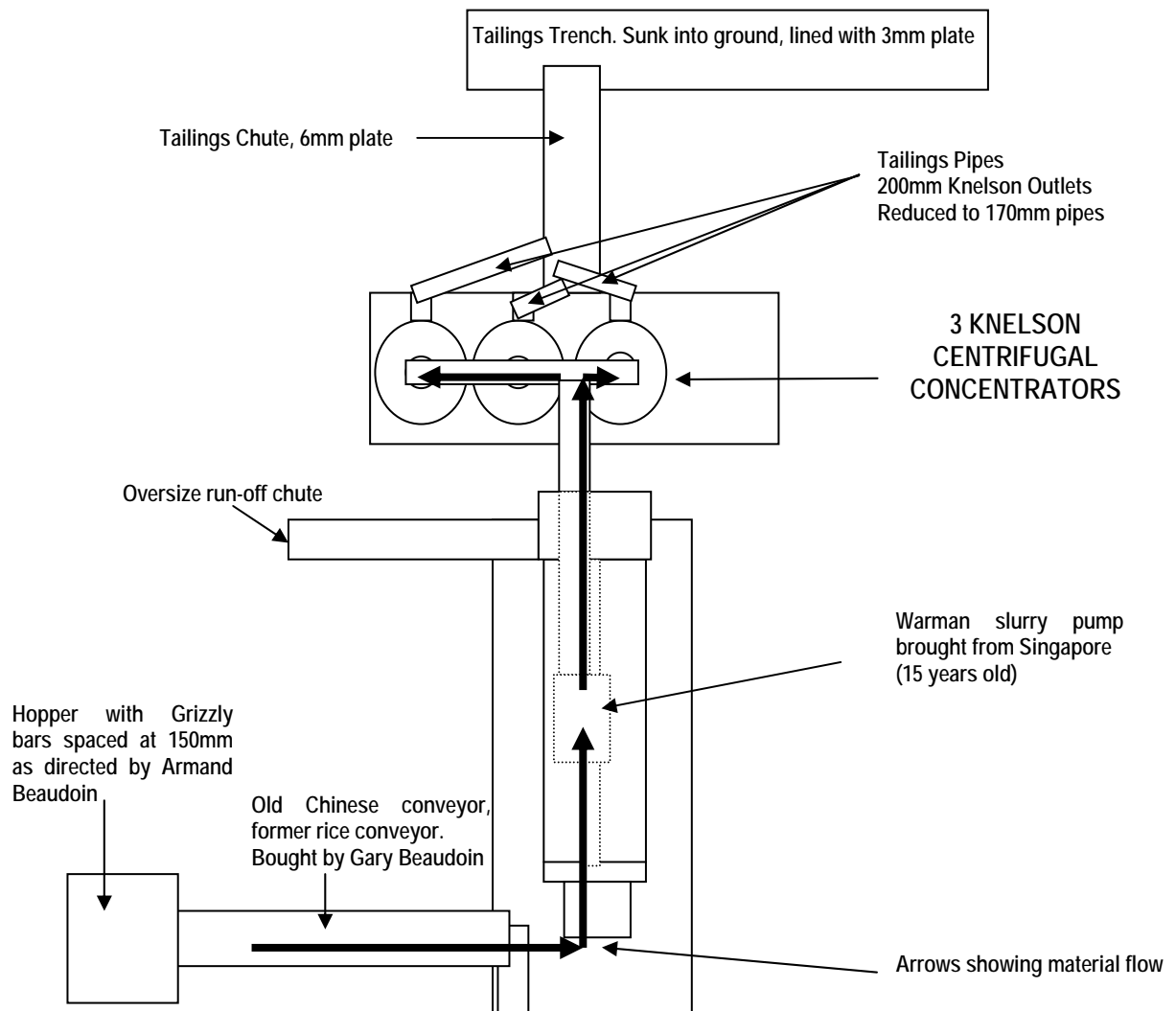
The original plant was constructed in Singapore in 1986 by Far East Minerals Pte. Ltd. as a Bulk Testing Pilot Plant for ‘bulk sampling’ of alluvial deposits in Kalimantan (Borneo in Indonesia). In 1996, Armand Beaudoin shipped the same plant to Mongolia for ‘bulk testing’ the tailings of sluice box operations, and to gain data for design of a large-scale ‘Production Plant’.

Decision to upgrade ‘Bulk Testing Pilot Plant’ to ‘Production Plant’

In March 1997, Java Gold decided that the Pilot Plant should be upgraded and converted into a ‘Production Plant’ capable of 75-100m³/hour. According to Gary Beaudoin, the main problems were: “1st the plant was 10 years old with severe metal fatigue in the trommel drive system; 2nd the 3 additional Knelson Concentrators to be added were ex-Monterado project in Kalimantan, i.e. old and second-hand; 3rd the original Warman slurry pump did not have the capacity to feed 4 Knelson Concentrators; and 4th the Knelsons could only handle feed material of a maximum of 5mm. The Pilot Bulk Testing Plant was never designed for full-scale production”.

Poor initial set-up of Production Plant

The initial configuration of the gold processing plant of Java Gold was poor, according to notes by Iain Barclay, employed on site for most of the 1997 season as welding/fabrication engineer:



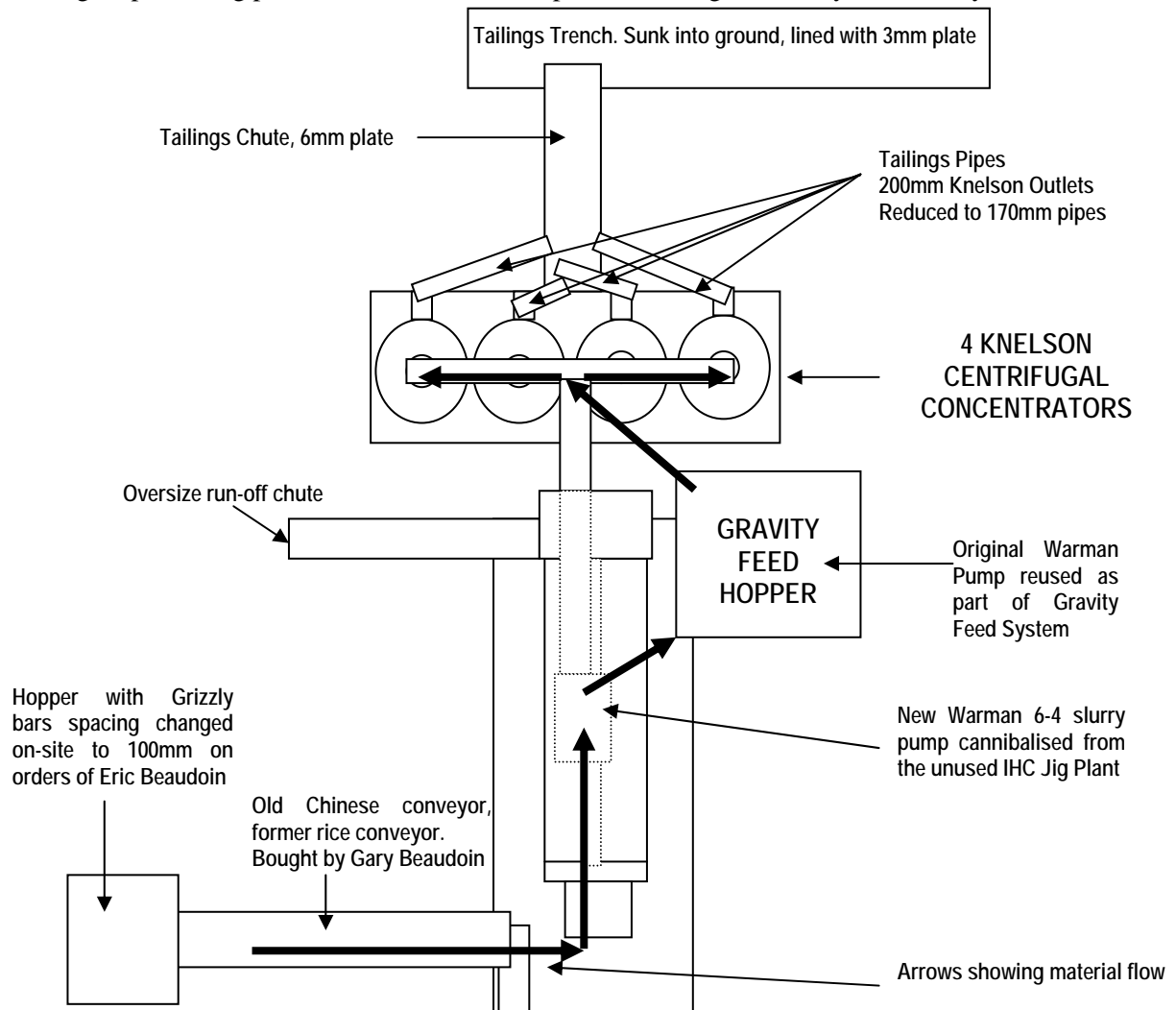
Lack of Engineering Drawings for Production Plant

Rather than buying a new mineral processing unit fully-engineered and ready to “switch on”, Java Gold decided to build its own mineral processing unit – using primarily old equipment worn and often unsuitable and unreliable components. Java Gold cobbled together the mineral processing unit from second-hand old Knelson Centrifugal Concentrators, a 15-year old Warman Slurry Pump, a second-hand Chinese Rice Conveyor and sundry bits and pieces.

The Production Plant was put together without a unified engineering drawing, and the interconnections between the main elements were created – without drawings – in the well-equipped workshops of Barmash JSC in Ulaanbaatar, and at the mine camp. Hardly a recipe for success. Inevitably, the Production Plant under-performed and retro-engineering to try to increase performance was semi-continuous throughout the mining season, wasting many production days.

Still poor set-up of Processing Plant later in the 1997 season

After much ingenious improvisation, with no engineering drawings, the final configuration of the gold processing plant of Java Gold was still poor, according to notes by Iain Barclay:



Inadequate protection from oversize by Grizzly

The original spacing of the Grizzly Bars on the Hopper was 150mm following instructions at Barmash JSC by Armand Beaudoin. This was too wide, and later in the 1997 season Eric Beaudoin (son of Armand) organised the changing on-site to 100mm spacing.

Poor control of feed to Knelson Concentrators

Knelson Centrifugal Concentrators are famous for their remarkable ability to recover fine gold. However their effectiveness depends upon the consistency and uniformity of the feed, with scening off at approx. 4mm. Instead, Java Gold placed blind faith in 4 parallel Knelson Centrifugal Concentrators WITHOUT proper consideration to managing the inflow feed, or how to correctly split the feed between the 4 Knelsons. Surges were inevitable and performance suffered. Later in the 1997 season a gravity feed mechanism was built and installed which alleviated the problem considerably.

Old worn second-hand Screening Plant

The screens of the Screening Plant “kept breaking down”, due to age and worn condition.

Old inadequate worn second-hand Knelson Centrifugal Concentrators

The Knelsons originated second-hand from Indonesia, and were old and worn when they arrived in Mongolia. Almost certainly they had been written-off assets of Condor Mining & Resources Corporation (Singapore) and sold for a significant sum to Java Gold (via its subsidiary MGC). The beneficiary of this transaction would have been shareholders of Condor Mining & Resources Corporation (notably Armand Beaudoin).

Second-hand Chinese Rice Conveyor

As part of the upgrading of the original 1-Knelson test plant to a 3-Knelson mining plant, a second-hand Chinese rice conveyor was imported. This was not entirely suitable.

Old inadequate second-hand Electrical System

Significant problems and delays were caused by the electrical system. This was made in Indonesia and imported from Singapore and, according to Frank M^cBride who is a highly experienced electrical engineer, the electrical system was "*knackered*". It had been damaged in transit, the transformer had fallen down and screws sheared off. In his professional opinion, the electrical system had been "*very badly designed*" and "*the softstart system was a weird magnetic system.*" The generator capacity was adequate for 3 Knelson Concentrators but was "*not enough*" for 4. The original generator had been a second-hand Cummins Diesel Generator (also ex-Indonesia) and was "*not quite big enough*". During the 1997 mining season, it was necessary to buy a bigger 300kW Caterpillar Diesel Generator from Wagner Asia-Equipment Ltd. of Ulaanbaatar.

Old inadequate second-hand Water Pumping System

According to Frank M^cBride, the original water pump was old, again second-hand from Indonesia. "*It was not powerful enough, nor were its electrics.*" It was necessary to double up its cable. "*Priming was difficult, and had to be done in sequence.*" Later in the 1997 season, it was assisted by 2 new Selwood Water Pumps arranged in series.

Failure to commission and use the new IHC Jig

An IHC One-Cell Jig, ideal for material slightly coarser than the Knelsons could handle, arrived at the Toson Mine in May 1997. But the IHC Jig was never used between then and the end of July 1997, and returned to Barmash JSC. According to Iain Barclay: "*No attempt was made to use this jig. When Eric Beaudoin asked Armand Beaudoin what he Armand wanted him to do with it, Armand replied, put it in a corner somewhere. I'll tell you when to use it later. To my knowledge the IHC jig was never used, set up or even checked between May and the end of July 1997. When it was returned to Barmash it was full of a black, tar like substance and everyone acted surprised. That is a good indication of how often it was looked at. The state of the IHC jig when returned to Barmash made it INOPERABLE.*"

Old inadequate second-hand Water Pipe

According to Iain Barclay, who welded it together, the water pipeline consisted of a 1km length of second-hand irrigation pipe bought in Mongolia, which required the irrigation nozzles every few tens of centimetres to be plug-welded at Barmash JSC, and the 10m long sections of course also had to be welded on-site. The pipe was galvanised, making welding difficult.

Failures of Electrical Grid

Java Gold was fully aware of the risk, indeed inevitability of failures to the electrical grid, but did not make any special contingency provision. Processing activity was therefore disrupted.

Old inadequate second-hand Slurry Pumping System

According to Frank M^cBride and Iain Barclay, the original slurry pump was 15 years' old, again second-hand from Indonesia via Singapore, and was worn. Later in the season it was replaced by a new Warman 6-4 pump taken off the IHC Jig System. The old Warman Pump was reused to pump the gravity feed system supplying the Knelson Concentrators.

Barclay's Diary at Toson Mine in 1997

The following edited extracts are from a diary written by Iain Barclay while at the Toson Terrace Mine working as an engineer for Golden Tiger Corporation between May and mid-September 1997. The extracts give an eyewitness realism to the mining activity and that, while there were many problems, gold was been won and gold bars poured:

"The place is in a right mess. There is no electricity and no ones had anything to eat yet. We sat up all night in the jeep because we couldn't find the trucks with the bags."

"Setting up the machine has taken about 2 weeks to get it running properly but the water supply still a problem. Gary has promised Eric some more pumps but he's taking his time about it. Only two of the Knelsons running and Armand's shouting at Eric! "

"The job never stops. 2 o'clock this morning we finished reconnecting the pipes. At least the things running now."

"Pouring gold! All this time digging for something so small. 1kg of gold doesn't look like much from all that concentrate but Gary seems happy."

"Anyway there's still a load of concentrate going over the shaker. Gary is fiddling with the angle or something. Only got the gutters on two days ago. Before that he says we were losing gold!"

"Got to go out to the site again and start on the tailings chute."

"Gary says they are good geologists but they don't seem to do much geologying and they put the stock pile on the wrong side so we have to move all the machines and change the tailings chute to the other side and redo the pipeline from the river. We'll lose production for two days at least."

"They poured another two bars today from the concentrate they had on the side."

*"I can't help it if the geologists f**ked it up, and neither can Eric. Apparently they had the map upside down!" "I am really tired! 16 maybe 17 hours a day for 7 days a week is bloody hard."*

"They just poured two more today!"

"That gravity feed for the Knelsons was a good idea. Those pumps were surging and messing with Knelsons somehow."

"They should get some better gloves for that. Its like pouring cast. One drop of water in that mould and it'll go all over the place! They don't seem to bother when its Mongolians though."

False Claim about TWO Production Plants in 1997

Java Gold planned to use TWO gold production plants and claimed to have commissioned BOTH these plants, according to a New Release by Stephen Dattels and William Burton: *"The Company's two gold production plants have arrived at the Gazar property in the Zaamar Valley of Mongolia. Commissioning of the plants began on 25th May 1997 and full production is now being achieved."*

Two gold production plants physically arrived at the Toson Mine – a) Gold Production Plant using Knelson Concentrators; b) Gold Production Plant using IHC Jigs. However only ONE gold production plant was ever commissioned, the one using Knelson Concentrators.

The evidence for the IHC Plant not being used is remarkably detailed and overwhelming: a) helicopter visit to the Toson Mine by many witnesses in the 1997 season; b) uncommissioned state of the IHC Jigs at the end of the 1997 season; c) recollection of Iain Barclay who worked at the mine in the 1997 season; d) observations by the IHC Representative Gerrit Bazuin.

Astonishingly, the erroneous statement about TWO gold production plants was repeated in a News Release by Stephen Dattels on behalf of Java Gold on 16th September 1997: *"Java Gold is operating two gold recovery plants on the Gazar Toson dry placer deposit in the Zaamar valley."* The above statement was clearly UNTRUE.

Java Gold – Mining and Stockpiling in 1997

According to the 1997 Annual Information Form of Java Gold: “A 30,000 cubic metre stockpiling program was carried out during the season. This stockpile is in place for further processing.” This statement is NOT correct, creating the misleading impression that the stockpiling was deliberate. While modest stockpiling may, at certain mines offer certain advantages, it is exceptionally rare for a stockpile of this enormous magnitude to be warranted. The reality was that the rate of mining was FASTER than the inefficient SINGLE production plant could process, thus a backlog awaiting processing arose as a stockpile. As a general rule, large stockpiles are to be avoided at placer mines for two reasons:

- tying-up of expensive capital for many months (in this case until next spring)
- double-handling therefore handling costs likely to rise significantly

Adding together the stockpile (30,000m³) and the amount processed (17,200m³) indicates that a total of 47,000m³ was excavated during the 1997 season (ignoring bulkage factors etc.).

Comments by Mongolian President on Technology at Toson Mine

During his term as President of Mongolia, Ochirbat was a keen proponent of modern high % gold recovery systems.

In 1999, former President Ochirbat wrote a book in which he included a special chapter: “*Specifics of Technology of Gold Concentration at the Toson Deposit*” upon which the following translated extracts are based:

“*A placer gold mine in the Toson deposit located in Zaamar Soum, Tov Aimag, on the left of the river Tuul. The deposit is utilised by the Zaamar Goldfields Corporation.*” “*Sand washing and gold recovery process is done in accordance with the following sequence with special technology:*

- The sand washing process is done by a mobile concentration plant consisting of scrubber, shaking screen and Knelson concentrator;
- A metal recovery process involved firstly, cleaning, secondly separation of metal from the concentrate out of the washing plant. A small-sized Knelson concentrator, which is 12 inch, shaking table, gold separator and magnet us used in this process;
- During the washing process, gravel and tailings coming out from the barrel classifier and Knelson concentrator are piled. Loaders dump the gravel and tailings into a hole;
- During the concentration process, every detail of operation is speedily organised such as taking samples from the washing plants, and extracting gold from the washing unit.”

“*The washing and mining process at Toson uses very productive machinery, plants and technology. For example: excavator, loader and bulldozer from Caterpillar; 3 types of Knelson concentrator (30, 24 and 12 inch); large-sized shaking table, gold separator, Warman slurry pumps, (we used to call hydro-elevator), Selwood water pumps (its advantage compared with D and C types is that it does not require filling before operation), small –sized washing plant from IHC (its advantage compared to Russian and other plants used in Mongolia is that the concentrate is extracted via a Knelson concentrator rather than sluice), shaker from Malko etc.).*

Java Gold – Official Production Forecasts for 1997

On 28th April 1997 Stephen Dattels and William Burton officially revealed the production target on behalf of Java Gold: “Mongolian Goldfields Corporation will operate 2 plants on these dry alluvials beginning in May with planned production of 12,000 ounces in 1997.” On the 9th June 1997 Stephen Dattels and William Burton in an official News Release by Java Gold, slightly trimmed back the production target: “The 1997 production program will mine two blocks which have an average grade of 1.21 grams of gold per cubic metre. Assuming a recoverable grade of 1gm/m³ Java Gold has a projected monthly production rate of 2,000 ounces of gold per month and has budgeted production of 10,000 to 12,000 ounces for 1997 at an estimated cash operating cost per ounce of 100 US\$.” This quote, and others by Dattels and Burton, were incorporated verbatim into an article which appeared in the ‘Northern Miner’ magazine, encouraging investors.

Only half-way through the mining season, on the 13th August 1997, were production problems for admitted, by William Burton on behalf of Java Gold, who also claimed – quite wrongly – that the problems had been overcome: “Having now overcome the delays caused by problems with the transportation and importation of equipment, infrastructure and logistics (power grid failure) gold production is now increasing and further equipment has been acquired to gain maximum efficiency from the current Zaamar operations of Java Gold. Further plant capacity is planned for the spring of 1998.” Still the shareholders were not told the truth, that the production forecasts were unrealistic and had been from the start when only ONE plant was commissioned rather the false claim of TWO plants, plus the bad management of the mineral processing operation.

Towards the end of the mining season, the disaster was becoming difficult to hide from the shareholders. On 16th September 1997, Stephen Dattels drastically reduced gold production forecasts from 10-12,000 ounces to a meagre 2,000-3,000 ounces, but falsely claimed that the problems reported in August had been overcome: “As reported in August, a number of delays and start-up problems have been overcome. However, due to these problems, this year’s gold production targets have been reduced to between 2,000 and 3,000 ounces.” “Java Gold is operating two gold recovery plants on the Gazar Toson dry placer deposit in the Zaamar Valley of north-central Mongolia. Production rates, at full capacity, total 150 cubic metres per hour, with current gold grades ranging from 0.8 g/m³ to 1.2 g/m³.” This was a large false statement, as the ONE plant could, at best, not achieve half this production rate. Furthermore there was no evidence that the revised target of 2,000 to 3,000 ounces could be achieved so late in the season.

Exaggerated Production Forecast in ‘The Fagan Report’ for 1997

The ‘Fagan Report’ was – and still is – an extremely influential newsletter for shareholders of speculative share stocks such as Java Gold. Shortly before the start of the 1997 season, the ‘Fagan Report’ greatly exaggerated the size of Java Gold’s placer production forecasts. In his April 1997 report, Brian Fagan went, in the writer’s opinion, over-the-top in issuing a strong “buy recommendation” for stock of Java Gold (JVAG) based on the Company’s placer and hard rock holdings in Mongolia: “*Placer gold production will start in June and is expected to amount to about 25,000 ounces for the 1997 season. In excess of 100,000 ounces is the goal for 1998.*” Where Brian Fagan got these extraordinarily high figures from – 100% HIGHER than the highest official forecast declared by Java Gold for the 1997 season, and 400% HIGHER than the official forecasts declared by Java Gold for the 1998 season – is not known. Nor is it known why an influential newsletter should fail to be at least moderately accurate. Investors and shareholders would have been seriously misled by this article, which failed to take account of the latest released information.

Rejection of Java by ‘The Fagan Report’ later in 1997

In October 1997, Brian Fagan in the ‘Fagan Report’ gave a ‘SELL’ recommendation for shares in Java Gold (JVAG), a reversal of his ‘BUY’ recommendation in April 1997, due to the company’s working capital falling from 8.6m US\$ to 0.5m US\$: “...it is recommended as a sell, and I am discontinuing my coverage of the company. The obvious question is why! The easiest way to answer that question is to include it in the immediately described group of companies. In every case, I and subscribers would have done better if we had parted company with those situations before they ran out of operating capital.” “In April, when Java was recommended, it had a cash working capital of 8.6m US\$. In the following six months to date that amount decreased to about 500,000 US\$. Unless the five hole drill program now in progress on its White Stone prospect in Mongolia produces some barn-burner results, it is going to be uncomfortably close to the end of its economic life. That doesn’t mean it is going to go out of business or off the board. It simply means present shareholders are going to suffer some form of equity dilution in a company that is not dealing from a position of strength. Furthermore I see no acceptable excuse or reason for the situation developing in the first place.” “Java is by no means dead in the water; I just think it has a good chance of trading lower before next summer’s sun starts to thaw the placer goldfields of Mongolia. Sometime in the interim it may well find its way back to being recommended again.”

Exaggerated Production Forecast in ‘The Northern Miner’ for 1997

Later in the 1997 mining season, News Releases by Java Gold were abused by ‘The Northern Miner’. Many of the comments released in mid-September by Java Gold formed the basis of an upbeat article in ‘The Northern Miner’ which appeared MUCH LATER, on 13th October 1997. This article failed to include any reference to the recent serious production problems and stuck to the by then completely invalid claim of 2,000-3,000 ounces of gold being produced “this year”. Investors would have been misled by this article, which failed to take any account of the latest released information.

Exaggerated Production Forecast by First Delta Securities for 1997

At the end of the 1997 mining season, First Delta Securities exaggerated ELEVEN-FOLD the indicated reserves of Java Gold’s Toson Terrace deposit, and THREE-FOLD the average grade! The claim was made and written by Scott Waldie of First Delta Securities Inc., in the 11th November 1997 issue of “Research Commentary – Speculative Mining Recommendations” published by First Delta Securities: “Java Gold’s Zaamar Region Alluvials Project was acquired with their recent acquisition of Mongolian Goldfields Corporation and commenced tune-up production in 1997 with the first full production expected for this deposit for a six month season in 1998. Placer reserves at this deposit stand at 800,000 ounces of gold grading at 0.8 g/m³.” The article is factually incorrect and fundamentally flawed:

- “Tune-up production in 1997” ☒
MISLEADING – the 1997 season was a failed attempt at full-scale production
- “Placer reserves for this deposit stand at 800,000 ounces of gold” ☒
WRONG - a claim wildly exaggerating 3 official estimates for License A-066:
 - 215,000 ounces estimated by Java Gold on 28th April 1997
 - 250,000 ounces re-estimated by Java Gold on 16th September 1997
 - 71,000 ounces re-estimated by Java Gold at year-end 1997
- “Placer reserves... ..grading 0.8 g/m³” ☒
WRONG - refers only to the 17,200m³ processed in 1997, not the whole deposit

Investors would have been seriously misled by this article, which failed to take any account of known material facts.

A smoking gun is provided by the disclaimer at the end of the newsletter: *"First Delta Securities Inc is acting as an adviser to International Pursuit Corporation and Java Gold Corporation, has received, and may receive, remuneration for such service."* Thus the reader should at the very least be entitled to expect that the stated facts would be broadly in line with official News Releases of the Company – or at least have some connection with reality.

Write-up in Blanchard Newsletter in 1997

The 'Blanchard Newsletter' is also influential for investors in junior mining and exploration stocks. According to a message posted on the Java Gold string of the Silicon Investor website in August 1997: *"There was a very good write-up on JVAG by Jim Blanchard in his newsletter which I received on Monday. With markets closed Monday I assume all his subscribers had read this and were ready to take action by Tuesday morning if they were so inclined."* *"He has a pretty good following so I'm guessing he is responsible for most of the action."*

A reply posted on the Java Gold string on Silicon Investor by another investor stated: *"Someone on the IPJ thread stated that Blanchard features are sometimes paid for to get a response."* The posting on the IPJ (International Pursuit Corporation) thread was probably this: *"...I believe Blanchard has taken money for reco's in the past and its possible that's the case with this."*

Other comments by investors include the following: *"Received a solicitation from Blanchard's quarterly report. 8 page write up. I suspect recent price rise was from his subscribers who probably got a tap on the shoulder a few days ago. I will wait for a pullback, if none occurs then I'll pass."* *"Note that when the Blanchard article was published over 1/2 of the o/s shares traded."*

Actual Gold Production in 1997

Only by end-September did Java Gold admit that the production problems were very serious, in a News Release by Armand Beaudoin: *"As at September 30, 1997, the Company had produced about 371 ounces of gold resulting in net gold production revenues of 89,031 US\$."* By the end of the 1997 season, the scale of the production problems could no longer be concealed from the shareholders for income from gold production had to be accounted for in the audited year-end results, as announced by Armand Beaudoin: *"By the end of the production season in October, the Company had produced only 457 ounces of gold resulting in net gold production revenues of \$114,700."* Yet at the start of the 1997 season the forecast had been 2,000 ounces of gold PER MONTH, according to a News Release by Stephen Dattels and William Burton on behalf of Java Gold. Thus the entire production in 1997 was equal to a mere SEVEN DAYS of the forecast!

Financial Losses on Gold Production in 1997

At the end of September 1997, Armand Beaudoin reported the scale of the losses on behalf of Java Gold: *"The Company incurred direct operating expenses of 298,881 US\$ and charged depreciation expenses of 75,469 US\$ in the course of this gold production, resulting in a gold production operating loss of 285,319 US\$."* However, by October - the end of the mining season – the scale of the losses had escalated (or more likely had been previously concealed from shareholders). A News Release accompanying the end-of-year returns by Armand Beaudoin revealed: *"The Company incurred direct operating expenses of 493,026 US\$ and charged depreciation expenses of 215,625 US\$ in the course of this gold production, resulting in a gold production operating loss of 593,951 US\$."*

The knock-on effect of the heavy losses from placer gold mining was compounded by overconfidence that a strong revenue stream was assured and thus Java Gold had overextended itself in its financial obligations, as indicated by a press release by Armand Beaudoin: "During the last six months Java Gold has incurred significant operating expenses along with expenditure for equipment, facilities and property interests which were expected to be at least partially offset by placer gold production."

Removal of Cash by Armand Beaudoin

With such an appalling financial performance, why did not the directors and officers resign? The situation was not so simple! The disastrous year coincided with the phased retreat from Java Gold of directors and officers of International Pursuit Corporation, who undoubtedly had been partly to blame for not tackling the serious problems early in the 1997 mining season, and had undertaken substantial false reporting of material facts in News Releases. Furthermore Armand Beaudoin and International Pursuit were substantial shareholders and thus not easy to dislodge by other shareholders. And finally, 1997 was the year that the gold price crashed and investor interest in junior minex companies evaporated. Thus Armand Beaudoin had no challenge to his authority.

This study reveals that in 1997, in spite of the disaster at placer mining, Armand Beaudoin removed THREE-QUARTERS OF A MILLION US\$ from Java Gold, and apparently legally! This consisted of 240,000 US\$ as salary, 203,340 US\$ expenses, plus 50% of 363,800 US\$ paid to Golden Sundra Mining Corporation (50% owned by Armand Beaudoin), plus large payments for equipment to Condor (a group of companies controlled by Armand Beaudoin and registered in the Bahamas, Singapore and Mongolia). It is evident that the salary, expenses and equipment were not fully performance-related or else payment would justifiably have been zero!

Company Explanation for Disastrous Low Output in 1997

The disastrous low output was explained by Armand Beaudoin on behalf of Java Gold: "...mainly due to various unforeseen start-up difficulties which the Company expects to rectify before the start of the next years' production in the spring of 1998." "In addition, the Company also incurred significant capital expenditures on its placer operation, of which a 100,000 US\$ write-down has been provided in respect of certain placer production assets that management has determined to be unsuitable for the conditions in the Zaamar valley." "Disappointing Results from Placer Gold Mining Operations. Operations at Java Gold's 100 percent owned Gazar Toson placer gold mine site are now shut down for the winter season. Unfortunately, unexpected operating problems persisted throughout the last two months of this season, delaying the start-up of full production and as a result 1997 production targets were not achieved."

The grade of the deposits processed was good, and so cannot be the reason for the low output: "The Company estimates that during the production of the gold, 17,200 cubic metres of material were processed at an average grade of 0.835 grams of gold per cubic metre." Instead, very low throughput was the central problem. The management of Java Gold attributed the low throughput to: "the unsuitability of the test plants for volume commercial production as evidenced by long shut down and repair periods with complicated difficulties in requisitioning spare parts."

According to Armand Beaudoin, on behalf of Java Gold, much of the processing equipment was "unsuitable for the conditions of the Zaamar valley." "As a result, a net 1,376,550 US\$ write-down has been provided in respect of certain placer production assets that management has determined to be unsuitable for the conditions in the Zaamar valley." This was an edited version of the truth. The reality was that the plant was cobbled together from old unreliable equipment without drawings, and the second plant – the IHC Jig Gold Processing Plant was never used.

False Claim about Bulk Testing rather than Full-scale Mining

The 1997 Annual Information Form for Java Gold, filed long after the end of the field season, has a claim by Armand Beaudoin that is a false: *“Toson Deposit, License 066. Renovations and restructuring of the alluvial gold recovery test plant were carried out by the Corporation in the first half of 1997 for the purpose of carrying out a large bulk testing program on the Toson Terrace Deposit. The test plant was located at the Toson Terrace Deposit in June 1997, and commenced operation with material from various test pits.”* This contains serious factual errors:

- *“a test plant”* ☒
FALSE. It was a Test Plant converted to a full-scale Production Plant.
- *“a large bulk testing program”* ☒
FALSE. A full-scale production target of 10-12,000 ounces production was set.
- *“commenced operation with material from various test pits”* ☒
FALSE. Material was mined and processed from two full-scale production pits.

The scale and nature of the errors implies that the sole purpose of the wording was to deceive and mislead existing and potential shareholders, whereby the failed attempt to get into a large-scale profitable mining operation, with huge losses incurred, posing doubt on the competence and ability of the directors and officers, had been only a *“bulk testing program”*! The shareholders – both existing and potential – were not told the truth. Instead the Company presented false facts which could have wrongly influenced share dealings and share price, in breach of Section 250 of the Canada Business Corporations Act and Section 122 of the Securities Act of Ontario.

Placer Properties Written-Off at End-1997

Java Gold management were so disappointed with the 1997 experience of placer mining they took the drastic step of writing-off all the placer properties which Java Gold owned or had an interest in: *“In addition, the Company’s placer mineral properties have been written-off, resulting in a charge of \$5,237,897 to income in 1997, to reflect the uncertainty of whether the placer operations will be able to be resumed in future.”*

The same pessimism is reflected in the 1997 Annual Report: *“The Company’s placer mineral properties have been written off to reflect the uncertainty of whether there will be sufficient financing to enable the placer operations to be resumed in the future. While the Company is pursuing certain options in this regard, there can be no assurance that the Company will be successful or that sufficient proceeds will be realised.”*

Java Gold – Placer Equipment Written-Down at End-1997

The placer processing equipment was severely written down in value from its accumulated cost of 2,309,596 US\$ by \$1,376,550 US\$, which minus 215,625 US\$ depreciation left a year-end Net Book Value of only 717,421 US\$: *“The write-down of the Company’s placer production equipment in 1997 was provided in respect of certain alluvial gold production assets that management determined to be unsuitable for the conditions in the Zaamar valley in Mongolia.”*

The placer gold processing equipment had an accumulated cost of 2.3m US\$. This figure is **extraordinarily high**, even if it includes the cost of the well-equipped mine camp, gold room and assorted earth-moving equipment – but most of the earth-moving was by subcontractors using their own equipment. Stretching credulity, a valuation of 1m US\$ might be plausible. An inflated book value may be connected with valuations placed on the old, worn, second-hand equipment imported, and the write-down would have permitted the book value to approach a credible level.

Preparation in early 1998 for Placer Gold Mining

Preparations were minor and inadequate. It seems that Java Gold decided not to resume placer mining in 1998, due to shortage of cash and fear of further losses.

Production Forecasts for 1998

After the end of the 1997 mining season, in spite of the extremely low production, Java Gold was still confident it was able to rectify the problems. According to a News Release on 16th September by Armand Beaudoin on behalf of Java Gold, not only would the problems be resolved, but a 1998 target “*in excess of 10,000 ounces*” was announced: “*Java Gold also owns 100% of the adjacent Toson Alluvial license (480,000 ounces of gold) and 80% of the TAS Alluvial license (180,000 ounces of gold). Java Gold has now developed a full-scale placer operations base in the Zaamar Valley and intends to be in a position to add to its production capacity next year, with a target in excess of 10,000 ounces of gold annually.*” This confidence was repeated by Armand Beaudoin on behalf of Java Gold three weeks later on 7th November: “*Management believes that changes and upgrades to the equipment circuit can be implemented to achieve production targets during next year’s mining season.*” However by the time the 1997 Annual Report was written some months later, the confidence had evaporated and Java Gold wrote-off all its placer holdings and severely wrote down the placer mining equipment. No production forecasts were published by Java Gold Corporation actually during 1998.

Start of Gold Production in 1998 by Java Gold

The decision not to mine was reversed in the middle of the mining season, and revealed only on 17th September when Armand Beaudoin on behalf of Java Gold reported: “*Java Gold has completed the design and manufacture of a gold recovery plant for the open pit treatment of gold-bearing gravels within the Toson terrace mining License held by Java Gold in the Zaamar province of Mongolia. The gold recovery plant is currently being commissioned.*” The phrase “*design and manufacture*” was an exaggeration, the plant was merely a modification of what had been used disastrously the previous season.

Java Gold – Actual Gold Production in 1998

At the end of the 1998 placer mining season, on behalf of Java Gold, Armand Beaudoin reported: “*Java Gold Corporation has completed the commissioning of its recently modified and newly installed gold recovery plant in the Zaamar province of central Mongolia.*” “*The commissioning operations, during September and October, yielded 18.9 kilograms (607 ounces) of gold from 33,000 cubic metres of gravels excavated from open pits within Java’s Toson terrace mining license area.*” This indicates that a grade of 0.572 grams/m³ was being recovered in 1998.

“*Management is pleased with the performance of the new processing equipment which has now been winterized for storage during the Mongolian winter.*” As pointed out, the equipment was not “*new*” merely a new configuration with some new components.

Although with a positive tone, the hard reality is clear. The gold processing plant should have been ready at the beginning of the 155-day mining season in early May, instead it was only commissioned in September and October – the last 2 months of the mining season, before extreme cold weather prevents processing.

Production Log of Armand Beaudoin for 1998

The log of Armand Beaudoin for 1998 at Toson Terrace, entitled: 'Plant Operating Report' shows processing started very late – 10th September – and ran for only 50 days until 29th October 1998 when the harsh Mongolian winter ended it. Breakdowns were frequent, due to the second-hand equipment and, again, due to the lack of proper engineering drawings.

No.	Date	Running hours	Remarks	Volume LC	Gold Grade	Grade gm/m ³
1	10 Sep 98	4.2	Knelson-2, Warman pump	216.5	102.03	0.471
2	11 Sep 98	5.25	Electricity, chute	275	117.79	0.428
3	12 Sep 98	10	Changed oversize chute	950	449.91	0.474
4	13 Sep 98	5.3	Feed chute, conveyor pulley	325	153.56	0.473
5	14 Sep 98	12.3	Concentrate pipe, feed chute	975	933.12	0.957
6	15 Sep 98	10	Hopper, welding water manifold platform	1,000	514.54	0.515
7	16 Sep 98	9	Changed Russian slurry gasket	900	345.58	0.384
8	17 Sep 98	9	Changed screen position	925	355.77	0.385
9	18 Sep 98	8	Feed chute	716.5	209.61	0.293
10	19 Sep 98	7	Sample, check screen, maintenance Knelson-4	525	149.98	0.286
11	20 Sep 98	7	Electricity, slurry pump	800	285.69	0.324
12	21 Sep 98	7	Changed 4mm screen	700	136.92	0.196
13	22 Sep 98	8.3	Changed electrical motor	725	141.77	0.196
14	23 Sep 98	9.3	Concentrate bin welding	975	693.10	0.711
15	24 Sep 98	12	Changed conveyor belt clips	933	562.86	0.603
16	25 Sep 98	12	Maintenance	1,033	869.53	0.842
17	26 Sep 98	11.2	Changed Russian slurry wheel	966.5	580.52	0.601
18	27 Sep 98	15	Electrical problem for slurry	1,025	613.09	0.598
19	28 Sep 98	10	Knelson-1 maintenance	933	404.86	0.434
20	29 Sep 98	9.3	Changed hopper belt	875	584.26	0.668
21	30 Sep 98	5	Generator down	300	209.21	0.697
22	1 Oct 98	0	Changed generator to State power	0		
23	2 Oct 98	0	Connected to Central Power Line	0		
24	3 Oct 98	0	Changed screen, Warman pipe	0		
25	4 Oct 98	4.3	Repairs/freezing	225	112.9	0.502
26	5 Oct 98	9	Repairs/freezing	566.5	501.06	0.885
27	6 Oct 98	7.3	Repairs/freezing	475	157.55	0.332
28	7 Oct 98	12	Repairs/freezing	975	743	0.762
29	8 Oct 98	12.3	Manifold screen/freezing	1,000	683.8	0.733
30	9 Oct 98	12	Sample manifold/freezing	975	483.11	0.495
31	10 Oct 98	11	Electricity, spray bar maintenance/freezing	933	683.8	0.733
32	11 Oct 98	13	Freezing temperature	1,050	865.8	0.825
33	12 Oct 98	9	Freezing temperature	883	669.3	0.758
34	13 Oct 98	0	Freezing temperature	600	476.58	0.794
35	14 Oct 98	0	Clean-up Knelson, changed screen D15	0	90.02	
36	15 Oct 98	7	Freezing temperature	600	379.79	0.633
37	16 Oct 98	6.3	Freezing temperature	600	369.47	0.616
38	17 Oct 98	6	Freezing temperature	550	306.08	0.557
39	18 Oct 98	7	Freezing temperature	600	447.75	0.746
40	19 Oct 98	4	Freezing temperature	300	162.3	0.541
41	20 Oct 98	0	Break Russian pump and change to Warman	0		
42	21 Oct 98	10	Freezing temperature	435.52	435.52	0.484
43	22 Oct 98	16	Freezing temperature	527.17	527.17	0.439
44	23 Oct 98	16	Freezing temperature	453.8	453.8	0.314
45	24 Oct 98	16	Freezing temperature	376.59	376.59	0.314
46	25 Oct 98	9	Freezing temperature	165.72	165.72	0.184
47	26 Oct 98	6	Freezing temperature	202.82	202.82	0.338
48	27 Oct 98	8.3	Freezing temperature	445.65	445.65	0.495
49	28 Oct 98	4	Freezing temperature	195.48	195.48	0.652
50	29 Oct 98	4	Closing down	169.5	169.5	0.565

Financial Losses from Gold Production in 1998

Gold sales (NET) were stated to have been only 59,511 US\$. However this seems irreconcilable with the 18.9 kilos of gold produced which should have yielded at least 100,000 US\$ more in sales. This discrepancy is not yet understood.

Gold production operating expenses were 252,935 US\$, very high considering the shortness of the operating period. Gold production depreciation was very high, 290,919 US\$ for some unexplained reason. Overall, a gold production operating loss of 484,343 US\$ was sustained in 1998, 0.03 US\$ per share. With the operating period very short, this is an astonishing operating loss of 10,000 US\$ PER DAY. The intention had been for gold production to achieve an OPERATING PROFIT sufficient to cover all other expenses of Java Gold.

Net Deficiency in Working Capital

Other expenses (less other income) were 285,274 US\$ for 1998, down from 689,571 US\$ in 1997. Thus the Net Loss for the first 9 months of 1998 was 769,617 US\$, by which time Java Gold had a working capital net deficiency of 915,000 US\$.

By 30th September 1998, Java Gold had ZERO cash and cash equivalents other than restricted cash of 30,761 US\$: *“Java is currently negotiating new financing arrangements, centred around portions of its open pitable gold holdings in the Zaamar province in Mongolia. It is envisaged that the successful resolution of these negotiations, which is not yet assured, will partially alleviate Java’s working capital deficit.”* *“Plans for other, additional financing are also under active consideration and discussion.”*

Going-Concern Assumption

The ‘going concern’ assumption attached to the unaudited end-September reports of Java Gold, written after the end of the 1998 mining season was stark: *“...have been prepared on the basis that Java Gold Corporation is a going-concern, which contemplates the realisation of its assets and the settlement of its liabilities in the normal course of operations.”* *“Java Gold’s lack of unrestricted cash, substantial working capital deficiency and the losses suffered on its alluvial gold mining operations in Mongolia over the past two years cast substantial doubt on the validity of this assumption.”*

The ‘going concern’ assumption stated: *“The ability of Java Gold to continue operations through 1998 and beyond is dependent on:*

- *the continued support of its major shareholder and CEO, Armand Beaudoin;*
- *the ability of the Company to manage the continued support of its creditors until settlement of the Company’s obligations can be achieved;*
- *the Company obtaining additional financing or restructuring of its obligations; and*
- *the ability of the Company to generate positive cash flow from the commencement in the spring of 1999 of profitable production from its alluvial gold mining operations sufficient to satisfy its obligations and continue operations.”*

Commentary by ‘The Prospector’ on 1998 Mining

After the end of the 1998 season, ‘The Prospector – Investment and Exploration News’ announced on 4th December: *“Java Gold completed the commissioning of its gold recovery plant in Mongolia. The operation, performed during September and October, yielded 607 ounces of gold from 33,000 cubic metres of gravels.”* While factually correct, this failed to state it was the SECOND YEAR that commissioning had been attempted, again with poor results. Investors would have been misled by this article, which failed to take account of known facts.

Java Gold – Stockpile of Ore in 1998 Season

During the 1997 season, 47,200m³ of placer were mined, of which 17,200m³ were processed and 30,000m³ stockpiled at the end of the season.

During the 1998 season, 50,000m³ of placer were mined, 33,000m³ were processed, and thus a stockpile of 47,000m³ existed: “Approximately 47,000 cubic metres of gravels are stockpiled on site, ready for processing in 1999, and ground preparations for extended pit mining operations in 1999 are already complete.” Assuming that the stockpile at the end of the 1998 season contained the same grade as already recovered in the same season (0.572 grams/m³), then the stockpile contained 26.91 kilos ready-to-process in 1999.

The material should of course not have been stockpiled but PROCESSED and thus yield-cash-flow to the hard-pressed Company. Alternatively the stockpile should never have been amassed and thus saved scarce cash in overburden stripping and stockpiling of pay gravel.

Java Gold – Placer Gold Production in 1999

Unknown to its shareholders, Java Gold mined and sold a significant amount of gold in 1999 from the Toson Terrace. All gold mining and gold sales were undertaken by Zaamar Goldfields Ltd. (Mongolia), a 100% subsidiary of Java Gold Corporation.

By verbal agreement between Monpolymet and Armand Beaudoin shortly before he passed away on 5th July 1999, and after the signing of the Monpolymet-Zaamar contract, Zaamar Goldfields Ltd. (Mongolia) was allowed to mine the substantial volume of placer which had been stockpiled in previous years and was ready for processing. This was on the understanding that further agreements should be made.

A complication was that Zaamar Goldfields Ltd. (Mongolia), apparently without the knowledge or consent of the new license holder Monpolymet Co Ltd., signed a contract with a third party from New Zealand – Danny Walker - permitting him or his company to also engage in mining in return for 15% of the proceeds being paid to Zaamar Goldfields Ltd.

According to official records, 55.7 kilos of gold, after allowing for purity, were sold to the Mongol Bank in 1999 by Zaamar Goldfields Ltd. (Mongolia) for the sum of 510,450.4 Tugrugs – 495,582.91 US\$ at the then current exchange rate.

It appears that 36 of the 55.7 kilos were actually mined by a New Zealand miner (Danny Walker of Underwater Mining Ltd., Takaka, New Zealand) as subcontractor, rather than by Zaamar Goldfields Ltd. itself. Thus Zaamar Goldfields Ltd. appears to have recovered only 19.7 kilos directly by its own endeavors in 1999.

In 1999, Zaamar Goldfields Ltd. ranked 29th out of 99 gold-producing companies in Mongolia, but its owners – the shareholders of Java Gold Corporation – had NOT been informed.

Smuggling of Gold in 1999

In 1999, the New Zealand miner who had been subcontract-mining on the Toson Terrace for Zaamar Goldfields Ltd. was caught smuggling 1.8 kilos of what he claimed was “his” gold from Mongolia. He was found guilty by the authorities, fined and “his” gold confiscated.

References

- Beaudoin, Gary (2000) Gold Test on the Toson Terrace Placer, Zaamar Goldfield of Mongolia.
World Placer Journal (this issue) (in English)
- Grayson, Robin (2000) The rise and fall of Java Gold Corporation (Ontario) in Mongolia.
World Placer Journal (this issue) (in English)