

# The rise and fall of Java Gold Corporation (Ontario) in Mongolia

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## ABSTRACT

Java Gold Corporation (JVAG on CDN) was created as an Ontario registered corporation in 1996 with financial support from International Pursuit Corporation (IPJ on Toronto Stock Exchange). This paper outlines the meteoric rise of Java Gold and reasons for its catastrophic collapse. JVAG began as a Canadian stock market 'bubble' to attract in cash from investors to build up a strong portfolio of hard-rock gold licenses in Indonesia, the home of prospector Armand Beaudoin. Sensing a major opportunity, JVAG came to Mongolia, pulling along International Pursuit. Together they amassed a huge portfolio of hard-rock exploration licenses, but the collapse of the gold price and 10% Sales Tax on gold exports burst the speculative bubble. JVAG re-launched Barmash JSC (listed on the Mongolian Stock Exchange) as 'the Minerals House of Mongolia' creating a hub for other minex companies. JVAG attempted to become the world's biggest independent producer of placer gold, narrowly failing in late 1996 to raise 15m US\$ for a Krupp Bucket Wheel Excavator for dry mining on the Toson Terrace at Zaamar, and in mid 1998 failing to raise 22m US\$ for a Rohr Dredge on the adjacent Toson Alluvials of the Tuul River. Evidence is presented of ill-timed removal of cash by Armand Beaudoin (President and CEO) contributing to Java Gold's paralysis by NEGATIVE working capital. Examples are presented of serious breaches of the Canada Business Corporations Act and the Securities Act of Ontario, and systematic circumventing of Mongolian regulations controlling the award of licenses. Many News Releases are shown to be incorrect, misleading shareholders and investors, and erroneous official filings have misled the Canadian regulators. When Armand Beaudoin passed away in 1999, Java Gold was left with no directors and no officers. Currently the company has debts of up to 1m US\$, no cash, but a major asset is a 40% stake in the Toson Alluvial Gold License at Zaamar, estimated to be worth 4m US\$. Recommendations are presented for changes in Mongolian and Canadian laws and regulations, and the paper is intended to assist shareholders in the revival of Java Gold Corporation.

## Introduction

The stimulus to writing this paper was the realisation, in the months after the President and CEO of Java Gold, Armand Beaudoin, passed away, and investor interest had evaporated and Java Gold shares were worth less than wallpaper, that a subsidiary of Java Gold in Mongolia – Zaamar Goldfields Ltd. – were busy producing gold by placer mining. The shareholders of Java Gold knew nothing about this gold mine being active until the writer informed them. This paper is a history of a company that failed and yet somehow still had a gold mine!

There are two theories of history – cock-up and conspiracy. This study shows that few, if any, of the players knew what was really happening. Some were simply trying to extract as much cash as possible – by trading in shares (insider knowledge and "pump-and-dump") and milking enormous fees for salaries, bonuses and – on a massive scale – by setting-up private companies specifically to get control of exploration licenses and then sell these to Java Gold Corporation for substantial cash and shares. Milking and manipulation of the public company was on such a scale that management of the actual exploration and mining was rendered weak and distracted, and, once starved of the vital flow of fresh funds from investors, failed to cut back in time on extravagant costs and literally ran out of cash. The management misled the market in an attempt to shore up the share price and to attract more investors. The scale of deception was staggering.

It is hoped that this paper will help shareholders of Java Gold Corporation – mostly Canadian and US citizens – to discover the fate of their money.

## **Acknowledgements**

The author is pleased to acknowledge the many individuals who have generously 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), Frank M<sup>c</sup>Bride, Rick Giannoble (Java shareholder), staff of the Mongolian Stock Exchange, staff of the Companies Branch of the Ministry of Consumer and Commercial Relations of the Province of Ontario, staff of the Ontario Securities Commission and most of all those long-suffering shareholders of Java Gold Corporation who have contacted me, directly or through the Silicon Investor web site ([www.siliconinvestor.com](http://www.siliconinvestor.com)). This study would have been impossible a few months ago. Only now is Internet so pervasive that it is amazing, sometimes alarming, how far its tentacles reach. The stock markets in Canada are now largely electronic, as are the filings and press releases of public companies such as Java Gold. Historical filings of press releases are on the net and stay on the net. The comments of Java Gold investors stay on the chat lines years later. This paper was written and researched in Kazakhstan and Mongolia. I have never been to Canada.

### **1st Stage – Java Gold’s Origins as a Private Corporation**

The history of Java Gold Corporation is remarkable and short. As recently as 14<sup>th</sup> February 1996, it came into existence registered under the laws of Ontario as a private corporation (No.1169132).

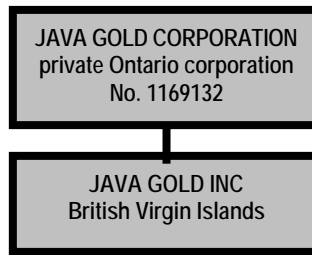
On 18<sup>th</sup> March 1996 a Reorganisation Agreement was entered into between three parties: a) Java Gold Corporation (private Ontario corporation); International Pursuit Corporation (public corporation trading as IPJ on the Toronto Stock Exchange); c) Armand Beaudoin (private citizen – a Canadian passport holder but resident in Indonesia).



*Fig: 1 Armand Beaudoin, photographed in 1997 in Mongolia.*

The Reorganisation Agreement had two main elements. Firstly, Java Gold Corporation acquired a 100% interest in Java Gold Inc. of the British Virgin Islands from the owner, Armand Beaudoin, in return for 3,000,000 common shares in Java Gold Corporation at an issue price of 0.25 CDN\$ per share, and a payment of 500,000 US\$ may also have been made to Armand Beaudoin. Secondly, Java Gold Corporation issued 3,125,000 shares to International  
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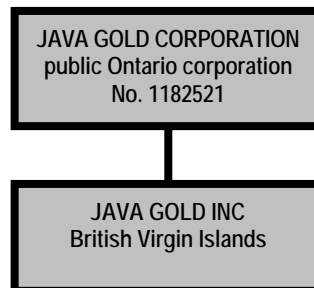
Pursuit Corporation in return for 2 million US\$ of equity finance. By this means, Java Gold Corporation gained cash, Armand Beaudoin gained both shares and cash and International Pursuit gained shares.



The original vision of the founders was for Java Gold Corporation to explore for gold in Java and neighbouring islands, based on the huge knowledge of Indonesia by Armand Beaudoin and International Pursuit Corporation. Up to this point, Armand had never even been to Mongolia.

### **2<sup>nd</sup> Stage – Java Gold Changes into Public Corporation**

On 2<sup>nd</sup> April 1996, by Articles of Amendment Java Gold Corporation had its private company restrictions deleted. On 1<sup>st</sup> June 1996, Java Gold Corporation amalgamated with CPX Industries Inc, a dormant Ontario-registered public company (corporation number 846951), to form Java Gold Corporation as an Ontario-registered public corporation (corporation number 1182521). Shareholders of CPX Industries received 495,911 shares of Java Gold Corporation at an issue price of 1CDN\$ per share. By this means, Java Gold became a public corporation with its shares traded on the Canadian Dealing Network (CDN), with the code of ‘JVAG’.



On 1<sup>st</sup> June 1996, Java Gold Corporation commenced trading on the Canadian Dealing Network (CDN), part of the system developed for trading in the over-the-counter market, known as the **Canadian Over-the-counter Automated Trading System (COAT)**.

### **3<sup>rd</sup> Stage – Java Gold comes to Mongolia**

The author was Chief Adviser of the Mongolian Business Development Agency (MBDA) from April 1995 to November 1997, and witnessed the rapid growth of placer gold mining. The MBDA played an important role, with two MBDA staff – Mrs. Choijliin Khajidsuren and Mrs. N. Oyundari trained in this field. Khajidsuren assisted in the rapid development of Golden Tiger Corporation, Mongolian Goldfields Corporation, Java Gold Corporation, Zaamar Goldfields Ltd. and Barmash JSC. Oyundari was to play a key role in establishing the British-Mongolian joint venture Ochir Leasing Co. Ltd. that introduced high % gold recovery systems.

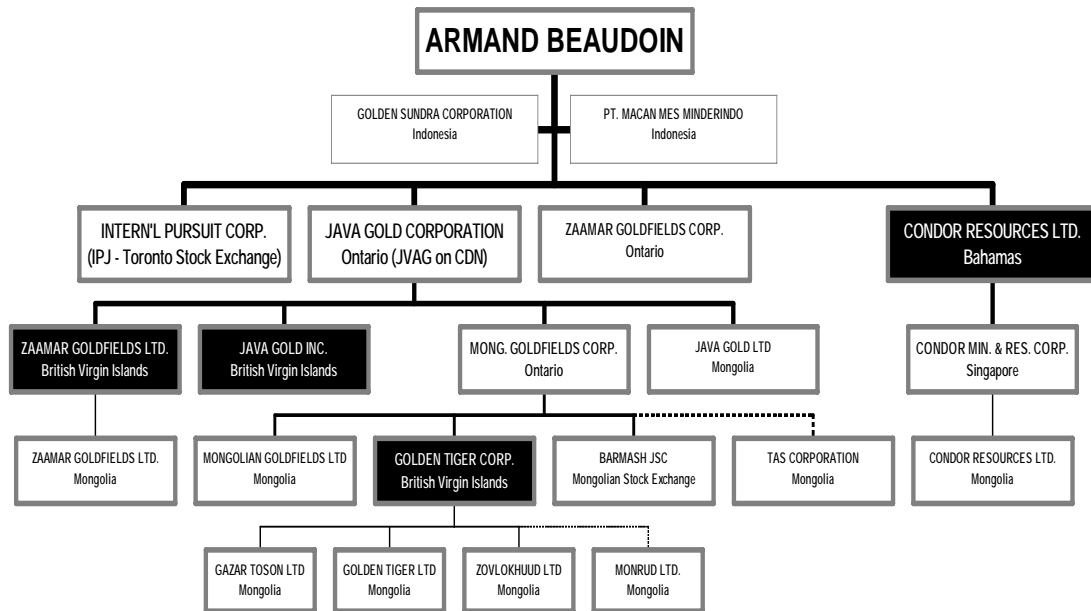
The author observed that the placer mines were losing a lot of gold, and requested help of specialists via Herman Hulsinga, the Country Manager for senior volunteers from Netherlands Management Co-operation Programme (NMCP). As a result, Gerrit Bazuin, then of Pursuit Corporation © 2000 Eco-Minex International Co. Ltd. 33 contact:emiweb@magicnet.mn

IHC Holland based in Beijing, came to the MBDA on a mission in autumn 1995 and, assisted by Khajidsuren and Oyundari, delivered highly successful seminars to local SME mining companies and Government officials.

Recognising the need for a ‘demonstration effect’ by an international miner, Gerrit Bazuin alerted Armand Beaudoin to the huge placer potential of Mongolia. As a direct result Armand Beaudoin arrived in Mongolia in 1996 bringing with him shortly afterwards Golden Tiger Corporation (BVI), Mongolian Goldfields Corporation (Ontario), Zaamar Goldfields Ltd. (BVI), Java Gold Corporation (Ontario, JVAG on CDN), Dyak Goldfields Corporation (DYAK on CDN), International Pursuit Corporation (IPJ on TSE) and Condor Resources Ltd. – amongst others.

### 4<sup>th</sup> Stage – Armand Beaudoin creates Business Empire

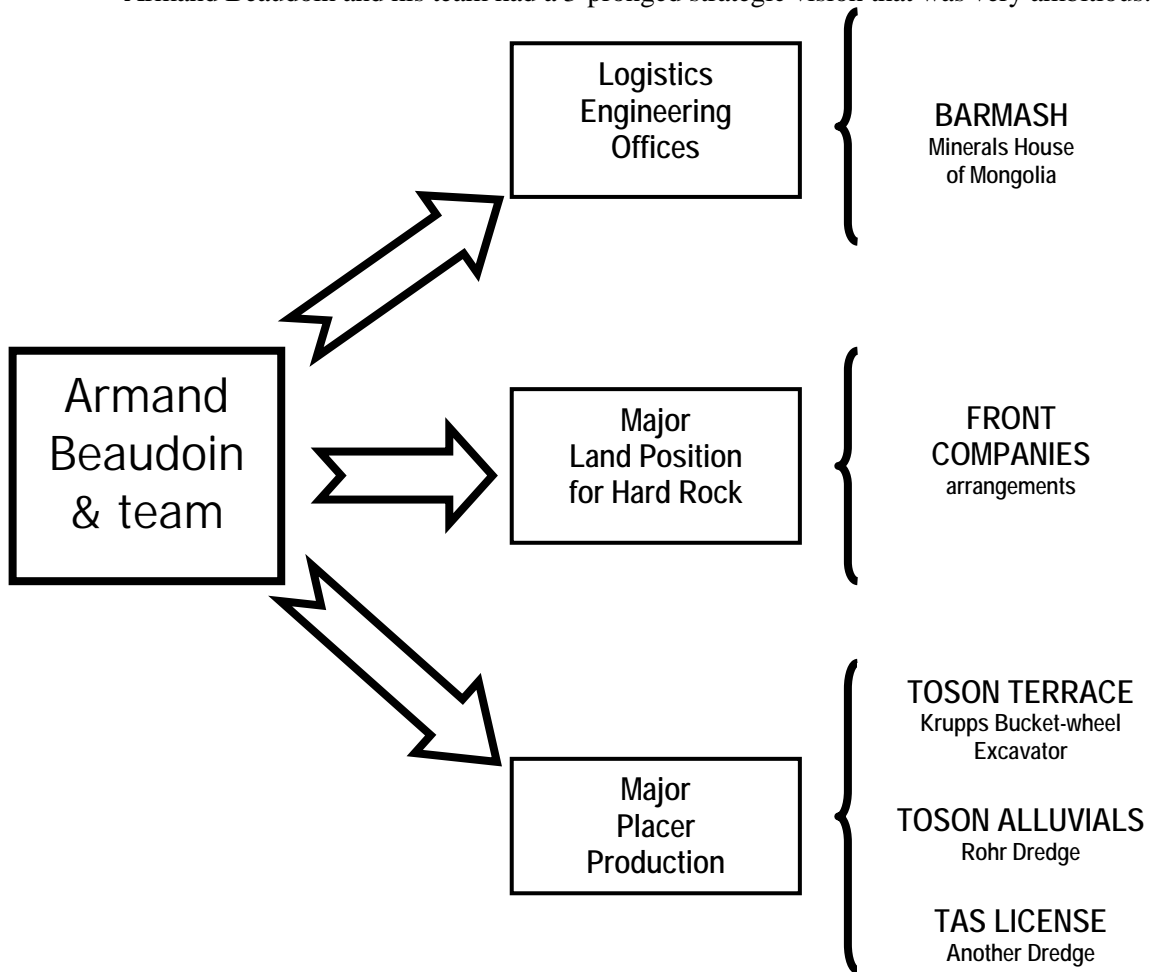
Armand Beaudoin swiftly set up an business empire of extraordinary size and complexity, with Java Gold Corporation at the core. Many of the linkages were concealed from Java Gold shareholders, Canadian regulators and the Minerals Resources Authority of Mongolia. The chart shows the main elements of his empire, but a further 20% known to the author is not shown. Currently the edge of the business empire has not been found and is still being mapped.



Two techniques of concealment are apparent. Firstly the creation of offshore companies (British Virgin Islands and Bahamas) as a barrier to investigation by Canadian regulators working downward and Mongolian authorities working upwards. Secondly, creation of a web of Mongolian companies in order to gain the maximum number of exploration and mining licenses without the Mongolian authorities – nor indeed the Mongolian companies – being aware of the full picture.

### 5<sup>th</sup> Stage – Strategic Vision of Java Gold

Armand Beaudoin and his team had a 3-pronged strategic vision that was very ambitious:



The strategic vision was achievable, but crashed utterly for reasons explained in this paper.

### 6<sup>th</sup> Stage – Java Gold Served with Current Cease Trading Order

The first interruption of Java Gold’s CDN status occurred on 16<sup>th</sup> September 1998 when the Ontario Securities Commission used its powers under the Securities Act of Ontario (Section 127 subsection 2) and issued a Temporary Cease Trading Order (CTO) against Java Gold. This prevented its shares from being traded on CDN, the reason given being that Java Gold was behind in its filings. Fast corrective action by Java Gold caused the rescinding of the Cease Trading Order (CTO) a few days later on 24<sup>th</sup> September 1998.

The Ontario Securities Commission again issued a Temporary Cease Trading Order (CTO) against Java Gold Corporation on 17<sup>th</sup> August 1999, which prevents shares being traded on the Canadian Dealing Network (CDN). The reasons given by the Ontario Securities Commission being: “...failure to file annual financial statements for the year ended December 31, 1998 and interim financial statements for the 3 month period ending March 31, 1999.” This CTO is still in force. The imposition of the Cease Trading Order refers only to the trading of shares on the Canadian Dealing Network (CDN) and does not mean that Java Gold Corporation has ceased to be active as a company: “...the issuance of a CTO does not prevent the Corporation from conducting its normal course of business.”

## 7<sup>th</sup> Stage – Current Status of Java Gold

The status of Java Gold is ACTIVE according to the Certificate of Status issued on 26<sup>th</sup> April 2000 by the Companies Branch of the Ministry of Consumer and Commercial Relations of the Province of Ontario, Canada, which states: “*This is to certify that according to the records of the Companies Branch JAVA GOLD CORPORATION Ontario Corporation No. 001182521 is a corporation incorporated, amalgamated or continued under the laws of the Province of Ontario. The corporation came into existence on JUNE 01, 1996 and has not been dissolved.*”

### Registered Office of Java Gold

The Registered Office Address of Java Gold declared in the official Corporation Profile Report, filed with the Companies Branch of the Province of Ontario, issued 26<sup>th</sup> April 2000 is: Ross Francis, Royal Trust Tower P.O. Box 95, Suite No.4400, Toronto, Ontario, Canada M5K 1GB. Ross Francis remains the Registered Office but is in an invidious position. There is no Board, Directors or Officers to give instruction or make filings or answer queries from the Companies Branch of Ontario Province, or Ontario Securities Commission: “*We have advised them that we do not have instructions or information necessary to file any such documents.*”

### Shareholders of Java Gold

An impressive array of shareholders acquired shares in Java Gold Corporation, not only by buying shares via the Canadian Dealing Network CDN (e.g. Rothschild), but also by private placement (e.g. Barrick Gold of Canada) and by share swaps upon amalgamations (shareholders of CPX Industries Inc in 1996, and of Mongolian Goldfields Corporation in 1997), as well as via take-up of share options by some Java directors and officers.

**Armand Beaudoin**, at various times and in various documents is stated to be “*the major shareholder of Java Gold Corporation*”. Usually this claim was made in documents, which he himself wrote or edited. Armand Beaudoin was indeed the **major** shareholder of Java Gold but NOT **majority** shareholder (i.e. holding more than 50%). He simply owned more shares in Java Gold than any other shareholder. No single entity, directly or indirectly, controlled Java Gold and at no time did Armand Beaudoin own more than 20% of the shares. As at 20<sup>th</sup> May 1998, Armand Beaudoin had direct ownership of 4,900,000 common shares of Java Gold, approximately 16.9%, barely changed from the 17.5% he held in August 1996.

**International Pursuit Corporation** was the second largest shareholder of Java Gold. International Pursuit is an Ontario-registered public corporation traded on the Toronto Stock Exchange (IPJ on TSE), and instrumental in the start-up of Java Gold Corporation.

On 14<sup>th</sup> March 1996, International Pursuit pushed ahead with its strategy of increasing investment in Indonesia by entering into two Acquisition Agreements to develop additional property interests owned by Java Gold Corporation and Dyak Goldfields Corporation in Kalimantan, Java and other islands of Indonesia. As part of the deal, International Pursuit provided 2m US\$ of seed venture capital finance to Java Gold, in return for 3,125,000 common shares, and a further 2m US\$ to Dyak Goldfields, again in return for 3,125,000 common shares. This occurred when Java Gold was still a private corporation; 2½ months before it became a public corporation with its shares traded on the Canadian Dealing Network (CDN).

Before the end of 1996, International Pursuit purchased an additional 316,536 common shares in Java Gold for 498,979 US\$ bringing the total of its equity interest in Java Gold to 19.5% – about the same as that held by Armand Beaudoin.

In 1997, International Pursuit purchased a further 524,000 common shares in Java Gold for the sum of 208,447 US\$, averaging 39.78 cents per share. However in the same year International Pursuit sold 500,000 common shares in Java Gold for the sum of 227,945 US\$, sustaining a loss of 206,501 US\$. International Pursuit was now unloading its shares in Java Gold as fast as possible. At year-end 1997, International Pursuit recorded in its audited Annual Financial Statement a write-down of 2,144,795 US\$ evaluation of its holdings of 3,465,536 common shares of Java Gold at an estimated market value of 0.25 CDN\$ per share.

In 1998, International Pursuit sold another 1,020,000 common shares in Java Gold for 35,977 US\$, an average selling price of only 0.035\$ share, incurring a loss of 830,407 US\$. At year-end 1998, International Pursuit wrote off its investment in the remaining 2,445,536 shares in Java Gold (8.4% equity interest) to ZERO because of "...the Company's belief that there had been a permanent decline in the value of the investment".

**Rothschild** (the bank group) bought shares in Java Gold early in its history, on behalf of 5 funds that Rothschild managed on behalf of clients, disclosed in a News Release by Bruce Gille of Rothschild Emerging Markets: "*Rothschild Emerging Markets L.L.C. ("Rothschild") announced that funds over which it exercises control of direction have acquired 793,200 shares of Java Gold Corporation ("Java") through market transactions .As a result of these acquisitions, the funds own, in aggregate, 2,638,456 common shares in Java. Rothschild directed the purchase of these shares on behalf of Croesus Emerging Markets Resources Fund L.P., Croesus Emerging Market Resources Fund L.P., Croesus Emerging Markets Resources Fund L.L.C., Croseus Fund L.P., and Croseus-EMTR Fund S.A.*" It is probable that these shares were subsequently disposed of.

**Barrick Gold** is one of the world's largest gold mining companies. At the end of 1997, Barrick bought 2,200,000 common shares in Java Gold by private placement: "*Java Gold Corporation announced today that Barrick Gold Corporation had acquired 2,200,000 common shares of Java Gold for an aggregate purchase price of Canadian \$1,100,000 or 0.50\$ per share by private placement.*" Given the date of purchase of the shares, and the interest in Barrick in Java Gold's hard rock licenses in Mongolia until early 1999, Barrick may still be a shareholder of Java Gold.

Barrick intended the finance to be focussed on hard-rock gold exploration: "*Java Gold and Barrick have agreed that 80 percent of the placement of \$1,100,000 will be used by Java Gold for exploration of properties in Mongolia.*" "*In addition, prior to the abandonment or disposition of any of its Mongolian properties, Java Gold will grant Barrick a right of first refusal to acquire such properties.*" "*In the event that Java Gold discovers or identifies one or more gold resources on its properties in Mongolia containing at least 250,000 ounces of gold during the three year period following the private placement, Barrick shall have the right to elect to enter into an option agreement to acquire a 60% interest in the identified resource and the areas reasonable contiguous thereto, at which time Barrick will be responsible for 100% of the costs necessary to determine the commercial viability of the resource.*" "*Until a positive decision is made by Barrick whether to proceed with the development and mining of the resource, Barrick has the right to withdraw from the project at which time 100% of Barrick's rights in the properties would be reconveyed to Java Gold.*"

## Number of Shares Issued by Java Gold

Prior to trading on Canadian Dealing Network (CDN), the following share issues by Java Gold Corporation took place, from inception to May 1996: 6,350,000 shares at \$0.25 for 1,587,500\$, 5,275,000 shares at \$1.00 for 5,057,000\$ and 2,500,000 shares at \$2.00 for 4,719,180\$. By 30<sup>th</sup> June 1996, Java had issued 17,620,911 “*outstanding on an undiluted basis.*”

On 15<sup>th</sup> August 1996, Java Gold issued 100,000 common shares valued at 88,000 US\$ to Golden Sundra Mining Corporation (an Indonesian company in which Armand Beaudoin held a controlling interest) in connection with an option to acquire a 100% beneficial interest in the Kendeng project in West Java.

On 28<sup>th</sup> February 1997, Java Gold had 17,620,920 common shares issued on an outstanding on an undiluted basis, rising to 24,045,911 shares by 30<sup>th</sup> May, 24,190,000 shares by 16<sup>th</sup> September, 24,540,911 shares by 27<sup>th</sup> November, and by year-end 1997 had risen to 26,740,912 shares. This included the issuing of 2,200,000 shares to Barrick Gold Corporation for an aggregate purchase price of CDN \$1,100,000 or \$0.50 per share by private placement, (618,000 US\$) as part of the ‘Barricks Agreement’.

The next significant event was on 15<sup>th</sup> April 1998 when Java Gold successfully issued 2,253,571 common shares for 788,750 US\$, each unit being a common share of Java Gold plus one half warrant entitling the holder to subscribe for one common share at 0.50 \$CDN per share up to close of business on 30<sup>th</sup> June 1999. Thus by 15<sup>th</sup> April 1998, Java Gold had 28,994,483 common shares issued. By 30<sup>th</sup> September 1998 the figure had risen to 28,994,483 common shares outstanding on an undiluted basis. No records have been published by Java Gold since.

## Current Directors & Officers – Java Gold Corporation

The Board of Java Gold Corporation is currently in chronic disarray, with **NO** members of the board, **NO** directors, and **NO** officers. The sequence of events whereby this deplorable and illegal situation came about is dealt with in the following sections.

## Java Gold – Directors & Officers in Corporation Profile Report

All corporations registered in Canada are required by law to submit and keep up-to-date a ‘Corporation Profile Report’ which lists the names and addresses of all current directors and officers, together with a note of which directors are “resident Canadians”. Java Gold is registered in Ontario, so its report is filed with the Companies Branch of the Ontario Ministry of Consumer and Commercial Relations. EMI decided to find out who the current directors and directors were and obtained via Internet the Corporation Profile Report on 26<sup>th</sup> April 2000. This stated:

Armand Beaudoin	Jl Wijaya 1 No.71 Kebay, Jakarta, Indonesia	
President	Java Gold Corporation	as from 12 November 1997
Director	Java Gold Corporation	as from 25 June 1997
☒ Andrew M. Chater	6 Denham Drive, Richmond Hill, Ontario, Canada L4C 6J1	
Director	Java Gold Corporation	as from 31 March 1998
☒ Gary E. German	3 Ridgefield Road, Toronto, Ontario, Canada M4N 3H7	
Director	Java Gold Corporation	as from 31 March 1998
☒ Bernard L. Kraft	2 Bluejay Place, Don Mills, Ontario, Canada M3B 1V9	
Director	Java Gold Corporation	as from 24 April 1997
☒ = resident Canadian		

The Corporation Profile Report has not been updated, as required by the Canada Business Corporations Act, on four different counts:

Firstly, Armand Beaudoin as President and Director of Java Gold Corporation should have been deleted due to him passing away in Mongolia on 5<sup>th</sup> July 1999, as “*a director of a corporation ceases to hold office when he dies or resigns.*” (Canada Business Corporations Act – Section 108 subsection 1). Failure to update a Corporation Profile Report renders Java Gold Corporation and its directors and officers liable to prosecution due to breach of Section 250 of the Canada Business Corporations Act and is also a breach of Section 75 of the Ontario Securities Act.

Secondly, Bernard L. Kraft had resigned on 21<sup>st</sup> April 1998, but this fact has not been recorded by Java Gold Corporation in the Annual Information Form as required by Canadian law. This was a simple, albeit serious, oversight. Failure to update the Corporation Profile Report by deleting Ben Kraft renders Java Gold and its directors and officers liable to prosecution due to breach of Section 250 of the Canada Business Corporations Act.

Thirdly, John M. Herbert is not mentioned as being an officer of Java Gold Corporation in the Corporation Profile Report, even though he is very clearly stated to be the Chief Financial Officer in the Annual Information Form on 30<sup>th</sup> June 1998. The Corporation Profile Report is inaccurate and misleading. Failure to update the Corporation Profile Report renders Java Gold Corporation and its directors and officers liable to prosecution due to breach of Section 250 of the Canada Business Corporations Act. In fact, John Herbert resigned as Chief Executive Officer from Java Gold Corporation in June 1999.

Fourthly, investigation by EMI shows that the Corporation Profile Report is fundamentally in error – today there are NO directors and NO officers.

## Java Gold – Directors & Officers in the last Annual Information Form

Puzzled by these errors, EMI obtained by Internet the last Annual Information Form of Java Gold Corporation, for the year 1997, dated 30<sup>th</sup> June 1998, lodged on the SEDAR electronic system in Canada. The Annual Information Form is a legal document, also filed with the Companies Branch of the Ontario Ministry of Consumer and Commercial Relations. It has the following list:

### Armand Beaudoin

President	Java Gold Corporation
Chief Executive Officer	Java Gold Corporation
Director	Java Gold Corporation
Principal occupation:	President & Chief Executive Officer, Java Gold Corporation

### ✘ Andrew M. Chater

Director	Java Gold Corporation
Principal occupation:	President of Teddy Bear Valley Mines Limited

### ✘ Gary German

Director	Java Gold Corporation
Principal occupation:	Corporate Director and Independent Adviser

### John M. Herbert

Chief Financial Officer	Java Gold Corporation
Principal occupation:	Chief Financial Officer, Java Gold Corporation

This is for 1997, but no Annual Information Form was filed for 1998 or 1999 – further breaches of Section 250 of the Canada Business Corporations Act and the Securities Law of Ontario.

## Java Gold – Directors & Officers in the last Nominations

To understand what happened, EMI obtained a copy of the nominations proposed and accepted at the last Annual General Meeting of Java Gold, held in Toronto on 26<sup>th</sup> June 1998:

Armand Beaudoin	Chairman	Java Gold Corporation
	Chief Executive Officer	Java Gold Corporation
	Director	Java Gold Corporation
	Principal occupation:	Chairman and CEO, Java Gold Corporation
☒ Andrew M. Chater	Director	Java Gold Corporation
	Principal occupation:	President of Teddy Bear Valley Mines Limited
☒ Gary German	Director	Java Gold Corporation
	Principal occupation:	Corporate Director and Independent Adviser
John M. Herbert	Chief Financial Officer	Java Gold Corporation
	Principal occupation:	CFO, Java Gold Corporation

## Java Gold – Directors & Officers in the last Annual Report

An alternative starting point is the list of directors and officers given in the last Annual Report of Java Gold, issued on 13<sup>th</sup> March 1998:

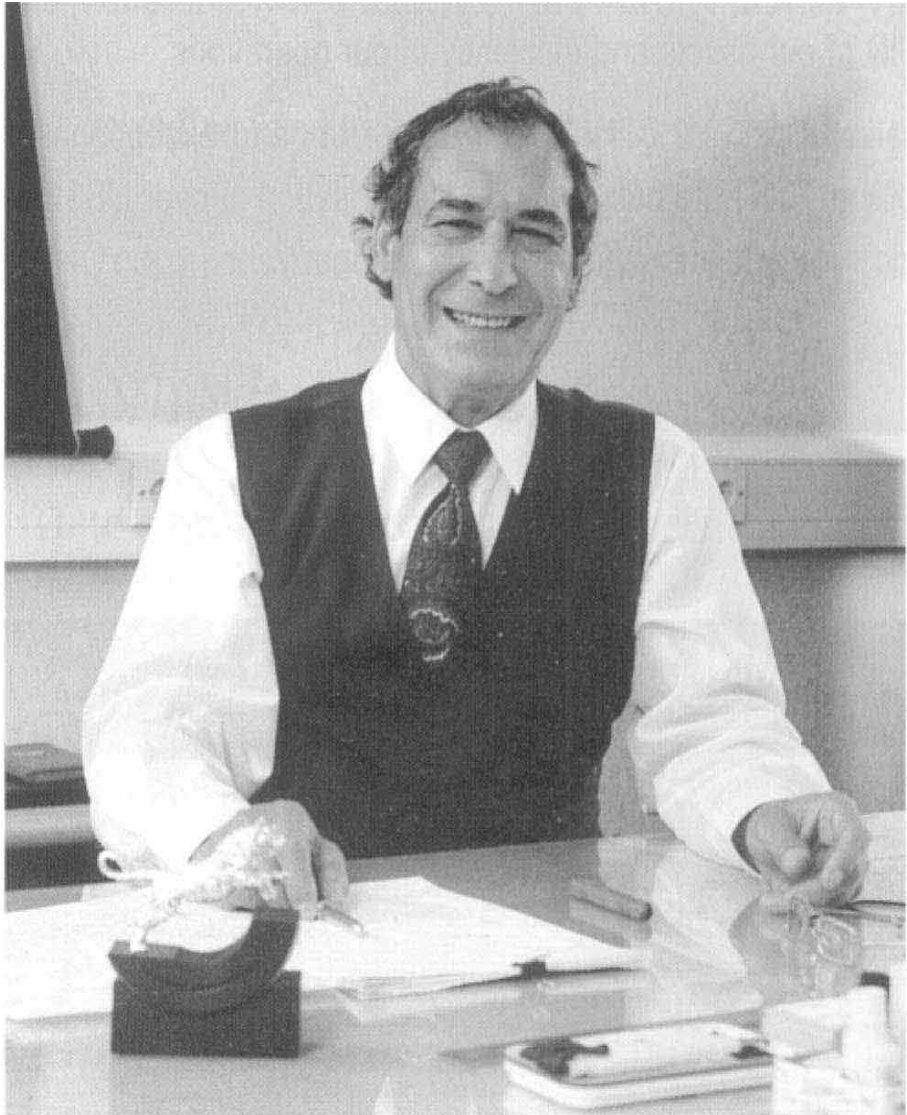
Armand Beaudoin	Director, President, Chairman, & Chief Executive Officer
Principal occupation:	President, Chairman and CEO, Java Gold Corporation
☒ Andrew M. Chater	Director
Principal occupation:	President of Teddy Bear Valley Mines Limited
☒ Gary E. German	Director
Principal occupation:	Corporate Director and Independent Adviser

The list agrees with the nominations for directors in the Management Information Circular.

## Java Gold – Turnover & Resignation of Directors & Officers

During its short life, Java Gold has had a total turnover of directors and officers, involving 10 people, since starting started trading on the Canadian Dealing Network (CDN) on 1<sup>st</sup> June 1996:

	Director	Officer	Position as Officer	Date resigned
Richard Boxer	☑	☒	N/A	Resigned 12 <sup>th</sup> Nov '97
William Burton	☑	☑	President	Resigned 12 <sup>th</sup> Nov '97
George Creber QC	☑	☑	Secretary	Resigned 19 <sup>th</sup> Feb '98
Stephen Dattels	☑	☑	Chairman, Co-Chairman	Resigned 2 <sup>nd</sup> Apr '98
Ben Kraft	☑	☒	N/A	Resigned 21 <sup>st</sup> Apr '98
Ian Mankeltow	☒	☑	Secretary	Resigned sometime '98
Gary German	☑	☒	N/A	Resigned Nov/Dec '98
Andrew Chater	☑	☒	N/A	Resigned 22 <sup>nd</sup> Jan '99
John Herbert	☒	☑	Chief Financial Officer	Resigned Jun '99
Armand Beaudoin	☑	☑	President, Chairman, Co-Chairman, CEO	Deceased 5 <sup>th</sup> Jul '99



*Fig: 2 Armand Beaudoin, photographed in 1998 in Mongolia.*

### **Armand Beaudoin – President & Chief Executive Officer of Java Gold**

Armand Beaudoin was one of the main driving forces between Java Gold Corporation and its large number of associated companies, until he passed away in Mongolia on 5<sup>th</sup> July 1999.

A few weeks before he passed away, Armand Beaudoin wrote: *“I could write many pages on what I have done for Java Gold. During the past two years I have financed everything with my personal money and spent all my time keeping things going under some very adverse conditions. My resources are now very limited and time is very short. While the Feasibility report was being done I was looking to raise money but everyone seems to be waiting for IFC to make the first move. I have never worked so hard for a Company during my whole life in the Mining business which covers over 50 years.”*

*“At present I am a one man show without sufficient human resources to administer this public Company, I must do everything myself to stay afloat. It’s getting more difficult as time goes.”*

Armand Beaudoin held many posts in companies owned by Java Gold active in Mongolia:

President	Java Gold Corporation (Ontario, JVAG on CDN)	historical: 12 Nov '97 – 5 Jul '99
Chairman	Java Gold Corporation (Ontario, JVAG on CDN)	historical: 2 Apr '98 – 5 Jul '99
Co-Chairman	Java Gold Corporation (Ontario, JVAG on CDN)	historical: May '98 – 2 Apr '98
Chief Executive Officer	Java Gold Corporation (Ontario, JVAG on CDN)	historical: 9 Jun '97 – 5 Jul '99
Director	Java Gold Corporation (Ontario, JVAG on CDN)	historical: 25 Jun '97 – 5 Jul '99
Officer	Mongolian Goldfields Corporation (Ontario)	historical: 20 Jun '96 – 5 Jul '99
President	Golden Tiger Corporation (British Virgin Islands)	historical: up to 5 Jul '99
General Director	Golden Tiger Corporation (British Virgin Islands)	historical: up to 5 Jul '99
General Director	Zaamar Goldfields (British Virgin Islands)	historical: 25 Oct '96 – 5 Jul '99
General Director	Zaamar Goldfields Ltd. (Mongolia)	historical: 9 Jun '98 – 5 Jul '99

Armand Beaudoin also held senior posts in the following companies which, although not owned by Java Gold Corporation, were often engaged in business deals and joint operations. With a few exceptions, most of these posts were not explained to shareholders of Java Gold:

Officer	Zaamar Goldfields Corporation (Ontario) (Ontario Corporation 1200725; not linked to Java Gold Corporation)	historical: 23 Sep '96 – 5 Jul '99
General Director	Barmash Joint Stock Company (Mongolia)	historical: 2 Sep '98 – 5 Jul '99
Governing Council Member	TAS Corporation (Mongolia)	historical: 21996 – 5 Jul '99
Director	Condor Resources Ltd. (Bahamas)	historical: up to 5 Jul '99
Director	Condor Resources Ltd. (Mongolia)	historical: up to 5 Jul '99
Director	Condor Mining & Resources Corporation (Singapore)	historical: up to 5 Jul '99
Director	PT Macan Mas Minderindo (Indonesia)	historical: up to 5 Jul '99
Major Shareholder	Dyak Goldfields Corporation (Ontario, DYAK on CDN)	historical: up to 5 Jul '99
Major shareholder	GIS Asia Ltd. (Mongolia)	historical: up to 5 Jul '99
Major shareholder	GIS Asia Ltd. (Singapore)	historical: up to 5 Jul '99
Major shareholder	Gobi Drilling Ltd. (Mongolia)	historical: up to 5 Jul '99
Major shareholder:	Gobi Drilling Ltd. (Singapore)	historical: up to 5 Jul '99

Setting up Java Gold Corporation required many millions of dollars, and Armand Beaudoin played a crucial role in assembling the licenses and in helping to raise the finance. Less obvious is the very substantial cash payments that Armand Beaudoin was awarded by Java Gold as salary, bonus, expenses and as payment for mineral licenses and equipment.

Armand Beaudoin was well paid – 250,000 US\$ cash in 1996, 240,000 US\$ cash in 1997. Nevertheless, these levels were not far out of line of top salaries for speculative gold exploration junior companies at the time. However Armand Beaudoin also gained cash in large amounts by first securing title or options on mineral properties and then lucratively selling them to Java Gold Corporation. This enabled him to receive an additional 500,000 US\$ cash in 1996 and a 50% share of 363,800 US\$ cash in 1997. These are MINIMUM figures encountered during this study. Altogether, Armand Beaudoin gained at least 1.5m US\$ cash in a 22-month period.

#### Armand Beaudoin in 1996

In the 322-period of Java's 1996 Financial Year, Armand Beaudoin was a Consultant for Java Gold and was awarded a "bonus" of 250,000 US\$. In the same 322-day period, Macan Mes Minerindo, an Indonesian operating company of which Armand Beaudoin was a principal, received 79,450 US\$ in respect of the provision of technical and administrative support by Armand Beaudoin and the staff of Macan Mas Minerindo.

On 18<sup>th</sup> March 1996, Java Gold Corporation acquired 100% interest in Java Gold Inc of the BVI from the owner Armand Beaudoin for 3,000,000 common shares of Java Gold Corporation being issued to Armand Beaudoin free-of-charge at an issue price of 0.25 CDN\$ per share. It appears that 0.5m US\$ was paid to Armand Beaudoin as part of the deal.

Thus in 1996, Armand Beaudoin appears to have received an income of 750,000 US\$ plus 79,450 US\$ in expenses, and 3,000,000 common shares in Java Gold Corporation.

#### Armand Beaudoin in 1997

In May 1997, Armand Beaudoin commenced employment as President and Co-Chairman of Java Gold Corporation, (with Steve Dattels remaining as Co-Chairman) and in June 1997 Armand Beaudoin was appointed as Chief Executive Officer of Java Gold Corporation: *“Armand Beaudoin has been appointed as Java Gold’s chief executive officer. Mr. Beaudoin is well-known in the exploration field with extensive experience in prospecting, project development and alluvial gold mining operations. Mr. Beaudoin was instrumental in acquiring the current assets of Java Gold in Indonesia and Mongolia.”*

Only on 25<sup>th</sup> June 1997 did Armand Beaudoin become a Director of Java Gold Corporation. In 1997 Armand Beaudoin had a 240,000 US\$ salary from Java Gold. In addition, in the same year, Macan Mes Minerindo, an Indonesian operating company of which he was a principal, received consulting fees of 203,340 US\$ for the provision of financial, administrative and logistical services. In May 1997, Golden Sundra Mining Corporation, an Indonesian company of which Armand Beaudoin held a 50% interest, received 363,800 US\$ and 100,000 common shares from Java Gold, pursuant to an agreement made on 15<sup>th</sup> August 1996, whereby Java Gold acquired a 100% beneficial interest in the Kendeng project in West Java.

Thus in 1997 Armand Beaudoin enjoyed a 240,000 US\$ salary + 203,340 US\$ expenses from Java Gold, and beneficiary (via Golden Sundra) of 181,900 US\$ + 50,000 shares of Java Gold.

Furthermore, early in 1997 Armand Beaudoin benefited from the take-over of Dyak Goldfields Corporation (DYAK on CDN) by International Pursuit Corporation (IPJ on TSE), with 1.1 shares of Pursuit exchanged for every 3 shares of Dyak. Armand Beaudoin was the largest shareholder of DYAK with 16% of the shares. Similarly, in the same year Armand Beaudoin benefited from the take-over of Mongolian Goldfields Corporation (of which he was 31.6% shareholder) by Java Gold. By these means he gained substantial extra shares in Java Gold and International Pursuit.

#### Armand Beaudoin in 1998

On 2<sup>nd</sup> April 1998, Armand Beaudoin was appointed as Chairman of Java Gold Corporation, and henceforth he was Chairman, President, Director and Chief Executive Officer. Due to the non-publication of the 1998 Financial Reports, his salary for 1998 from Java Gold is not known.

On 2<sup>nd</sup> September 1998, Armand Beaudoin was appointed as General Director of Barmash Joint Stock Company, a Mongolian public company listed on the Mongolian Stock Exchange.

#### Armand Beaudoin in 1999

On 5<sup>th</sup> July 1999, Armand Beaudoin passed away. At the time, actions by Java Gold Corporation were still controlled by the Ontario Securities Commission (OSC) who stated: *“The company should issue a press release upon the death of a company president and the Board of Directors has the responsibility to appoint a replacement. The company will then notify the Ministry of Consumer and Commercial Relations, Companies Branch.”*

No such action took place, as the Board of Directors no longer existed! Failure to issue a press release was also a breach of the Securities Act of Ontario. But there was no directors or officers to issue it: *“...when a material change takes occurs in the affairs of a reporting issuer, it shall forthwith issue and file a news release authorised by a senior officer disclosing the nature and substance of the change.”* – **Securities Act of Ontario, Section 75 subsection 1.**

Furthermore: *“...the reporting issuer shall file a report of such material in accordance with the regulations as soon as practicable and in any event within ten days of the date on which the change occurs.”* – **Securities Act of Ontario, Section 75 subsection 2.**

No such filing was made. With no directors or officers, nobody could authorise it. Also: *“...the Board of Directors has the responsibility to appoint a replacement.”* This replacement did not take place, as there was no Board of Directors, there being no directors at all. Finally: *“The company will then notify the Ministry of Consumer and Commercial Relations, Company Branch.”*

No such notification occurred, as there was nobody left who could authorise it. Yet the company IS allowed to continue, according to the Ontario Securities Commission: *“The death of the president does not prevent the Corporation from conducting its normal course of business.”*

#### Armand Beaudoin – unresolved issues in 2000

A number of issues remain unresolved. Of most interest to Mongolian readers will be the status of the ownership of Barmash Joint Stock Company, bearing in mind that Armand Beaudoin was General Director of this public company at the time he died. However, for the shareholders of Java Gold an unresolved issue is how many shares of Java Gold own at the time he passed away and who currently controls these shares.

For Canadian regulators, one of many questions is WHY Armand Beaudoin is still listed as President and Director of Java Gold Corporation on all official filings, and, curiously, why he is still listed as officer and/or director of at least another two Canadian corporations on the current Corporation Profile Reports. By virtue of being private companies they are outside the direct regulation by the Ontario Securities Commission, but still the Companies Branch of the Ministry of Consumer and Commercial Relations of the Province of Ontario should have been promptly notified of the passing away of Armand Beaudoin, but this did not happen.

Officer: Mongolian Goldfields Corporation as from 20 June 1996  
 Ontario Corporation: No. 1176471; (100% subsidiary of Java Gold Corporation)  
 registered office address: W. Stearns Vaughan, 181 Bay Street, Suite 1800, Toronto, Ontario, Canada M5J 2TJ  
 mailing address: 172 King Street East, 3<sup>rd</sup>Floor, Toronto, Ontario, Canada M5A 1J3

Officer Zaamar Goldfields Corporation as from 23 September 1996  
 Ontario Corporation: No. 1200735; (NOT a subsidiary of Java Gold Corporation)  
 registered office address: William Stearns Vaughan, 181 Bay Street, Suite 1800, Toronto, Ontario, Canada M5J 2TJ  
 mailing address: 172 King Street East, 3<sup>rd</sup>Floor, Toronto, Ontario, Canada M5A 1J3

Again, failure to update the Corporation Profile Reports renders these companies and their directors and officers liable to prosecution due to breach of Section 250 of the Canada Business Corporations Act.

### John Herbert – Chief Financial Officer of Java Gold

Erroneous filing by Java Gold Corporation caused John Herbert not to be mentioned at all in the Corporation Profile, but he is correctly stated as being the Chief Financial Officer in the 1997 Annual Information Form of 30<sup>th</sup> June 1998, and on page 12 of the 1997 Annual Report.


On 3<sup>rd</sup> February 1998, Armand Beaudoin wrote to Robin Grayson: *“As you are aware, John Herbert, Director of Java Gold and Financial Controller has returned to Ulaanbaatar today.”* However there is no legal evidence that John Herbert was at any time a Director of Java Gold.

In June 1999, John Herbert resigned as Chief Financial Officer of Java Gold and his resignation was accepted by Armand Beaudoin, President and CEO. The company claimed to no longer have funds to pay him and so his resignation was requested by Armand Beaudoin. Thus the resignation of the Chief Financial Officer was a month BEFORE Armand Beaudoin passed away on 5<sup>th</sup> July 1999, so then there were no directors or officers.

Posts held by John Herbert in Java Gold and its daughter companies included:

Chief Financial Officer	Java Gold Corporation (Ontario, JVAG on CDN)	historical: pre 30 Jun '98 – Jun '99
Principal occupation	CFO, Java Gold Corporation (Ontario, JVAG on CDN)	historical: pre 30 Jun'98 – Jun '99
Director	Zaamar Goldfields Ltd. (British Virgin Islands)	historical: 14 Jul '98 – Jun '99
Corporate & Financial Exec	Golden Tiger Corporation (British Virgin Islands)	historical: pre '97 – Jun '99
Corporate & Financial Exec	PT Macan Mas Minderindo (Indonesia)	as from Dec '96
	(Java Gold Corporation's Indonesian partner's operating company)	

## Andrew Chater – Director of Java Gold

 Andrew M. Chater 6 Denham Drive, Richmond Hill, Ontario, Canada L4C 6J1  
 Director Java Gold Corporation (Ontario, JVAG on CDN) historical: 31 Mar '98 – 22 Jan '99  
 President Teddy Bear Valley Mines Ltd. (TDBV on CDN)

Andrew Chater was appointed as Director of Java Gold on 31<sup>st</sup> March 1998, and his appointment was announced by a News Release issued on 2<sup>nd</sup> April 1998: “*Java Gold Corporation announced today the appointment of Mr. Andrew Chater and Mr. Gary E. German to its board of directors. Mr. Chater and Mr. German replace Mr. Stephen R. Dattels and Mr. G.E. Creber, both of whom are officers and directors of International Pursuit Corporation. Their resignations were to avoid potential conflicts of interest in areas where both companies are active.*”

Only 9 months later, Andrew Chater resigned as Director of Java Gold, on 22<sup>nd</sup> January 1999: “*A resignation of a director becomes effective at the time a written resignation is sent to the corporation, or at the time specified in the resignation, whichever is later.*” – **Canada Business Corporations Act, Section 108 subsection 2.**

Andrew Chater is still shown as Director in the filed Corporation Profile Report. Failure to delete his name renders Java Gold and its directors and officers liable to prosecution due to breach of Section 250 of the Canada Business Corporations Act – in this instance the only Director and Officer available was Armand Beaudoin who has since passed away.

Andrew Chater is still given as the ‘contact name’ for Java Gold Corporation in the Company Profile on SEDAR, the official electronic system for filing documents of public companies. Now there is no Director or Officer available to delete this information!

The resignation of Andrew Chater without any replacement was a ‘material change’ being:

- a) resignation of a Director;
- b) caused the number of directors to fall to ONE, well below the statutory minimum of 3;
- c) breached the requirement for Resident Canadian directors;
- d) prevented operation of the mandatory Audit Committee etc.

In the writer’s opinion, a News Release should have been issued by Java Gold, but was not. Shareholders, potential and actual buyers, potential and actual sellers, debtors, creditors, SEDAR, Companies Branch and the Ontario Securities Commission were not informed of material facts.

## Gary German – Director of Java Gold

 Gary E. German 3 Ridgefield Road, Toronto, Ontario, Canada M4N 3H7  
 Director Java Gold Corporation (Ontario, JVAG on CDN) historical: 31 Mar'98 – Nov/Dec '98  
 Director Nevsun Resources Ltd. (NSU on CNDX) historical  
 Technical Adviser Saudi Arabian Mining Corporation current post  
 President & CEO Latin Gold Corporation historical: Apr '96 – Mar '98  
 Chief Operating Officer TVX Gold Inc historical: Jan '95 – Mar '96  
 President & CEO Bedford International Finance Corporation historical: prior to 1995

Gary German was appointed as Director of Java Gold on 31<sup>st</sup> March 1998 together with Andrew Chater. Only 7 to 8 months later, Gary German resigned as Director of Java Gold in November-December 1998. However, Gary German is still shown as Director in the filed Corporation Profile Report, rendering Java Gold and its directors and officers at the time liable under Section 250 of the Canada Business Corporations Act. His resignation was, in the writer’s opinion, a ‘material change’ insofar as the number of directors fell to TWO, below the statutory minimum of three.

## Ian Mankeltow – Secretary of Java Gold

<u>Ian G. Mankeltow</u>	1896 Knights Court, Mississauga, Ontario, Canada L5K 2N4	
Secretary	Java Gold Corporation (Ontario, JVAG on CDN)	historical: part of 1998
Officer	Mongolian Goldfields Corporation (Ontario)	as from 23 Oct '96
Chief Financial Officer	International Pursuit Corporation (Ontario, IPJ on TSE)	current post, from Feb '96
Director	Dyak Goldfields Corporation (Ontario DYAK on CDN)	historical
Officer	Magnesium Alloy Corporation	current post
Accountant	Ernst & Young	historical, Jan '93 to Feb '96


Ian Mankeltow is one of the International Pursuit team, and their Chief Financial Officer. On 20<sup>th</sup> April 1998 he issued a News Release as Secretary of Java Gold, but it is unclear when he was appointed or resigned. He has also been an "Officer" of Mongolian Goldfields Corporation (a 100% subsidiary of Java Gold) since 23<sup>rd</sup> October 1996 and still holds this post according to the recently issued Corporation Profile Report.

## Ben Kraft – Director of Java Gold

 <u>Bernard L. Kraft</u>	2 Bluejay Place, Don Mills, Ontario, Canada M3B 1V9	
Director	Java Gold Corporation (Ontario, JVAG on CDN)	historical: 24 Apr'97– 21 Apr'98
Director	International Pursuit Corporation (Ontario, IPJ on TSE)	current post, from Nov '98
Director	Canadian Shield Resources Inc (CSP on TSE)	current post, from 16 Dec '96
Chartered Accountant	Kraft, Rothman, Berger, Grill, Schwartz & Cohen	current post
Director	Luxmar Resources Inc (LUX on ASE)	historical

Ben Kraft is a member of the International Pursuit team, and is currently a director. Previously he had been a director of Java Gold, appointed on 24<sup>th</sup> April 1997 and resigned with effect from 21<sup>st</sup> April 1998, 19 days after the resignations of Stephen Dattels and George Creber QC. However, Ben Kraft is still shown as being Director of Java Gold in the filed Corporation Profile Report. Failure to delete Ben Kraft renders Java Gold and its directors and officers liable to prosecution due to breach of Section 250 of the Canada Business Corporations Act. The Corporation Profile Report has been inaccurate since 21<sup>st</sup> April 1998!

## Richard Boxer – Director of Java Gold

 <u>Richard Boxer</u>		
Director	Java Gold Corporation (Ontario, JVAG on CDN)	historical: up to 12 Nov '97
Director	Manitou Capital Corporation (MOU on CDN)	current post
President	Buckingham Capital Corporation	as at May '97
Director	Alpha Communications Corporation (LDM on CDN)	current post
Director	International Pursuit Corporation (Ontario, IPJ on TSE)	historical: Jun '95 – 31 Nov '98

Richard Boxer was one of the earliest directors of Java Gold Corporation. He resigned with effect from 12<sup>th</sup> November 1997, at the same time as the resignation of William Burton.

## Stephen Dattels – Director & Chairman of Java Gold

✘ <u>Stephen R. Dattels</u>	100 Glengowan Road, Toronto, Ontario, Canada M4N 1G4	
Chairman	Java Gold Corporation (Ontario, JVAG on CDN)	historical: 1 Jun '96 –May '97
Co-Chairman	Java Gold Corporation (Ontario, JVAG on CDN)	historical: May '97 2 Apr '98
Director	Java Gold Corporation (Ontario, JVAG on CDN)	historical: up to 31 Mar '98
Director	Mongolian Goldfields Corporation (Ontario)	as from 20 Jun '96
President	International Pursuit Corporation (Ontario, IPJ on TSE)	historical: 16 May '96 –Nov '98
President	International Pursuit Corporation (Ontario, IPJ on TSE)	prior to Apr '95
Chairman	International Pursuit Corporation (Ontario, IPJ on TSE)	current post, from Nov '98
Chairman	International Pursuit Corporation (Ontario, IPJ on TSE)	historical: Apr '95 –May '96
Chief Executive Officer	International Pursuit Corporation (Ontario, IPJ on TSE)	historical: pre-Apr '95 –Nov '98
Director	International Pursuit Corporation (Ontario, IPJ on TSE)	current post since Jul '87
Director	Dyak Goldfields Corporation (Ontario, DYAK on CDN)	current post, as from 1996
Director	White Knight Resources Ltd. (WKR on CDN)	current post
President	World Points Terminals Inc.	as at 3 Mar 98

Stephen Dattels is a leading member of the International Pursuit team that funded the start-up of Java Gold, and was appointed as the first Chairman of Java Gold on 1<sup>st</sup> June 1996, and appointed Director somewhat earlier. In 1996, Stephen Dattels received a salary of 36,000 US\$ from Java Gold, on top of his other income. On 1<sup>st</sup> June 1996, he ceased to be Chairman and became Co-Chairman jointly with Armand Beaudoin. That year, Stephen Dattels received a salary of 54,503 US\$ from Java Gold, plus a bonus of 100,000 \$CDN. It is unclear why any bonus was justifiable.

Stephen Dattels resigned as Director of Java Gold on 31<sup>st</sup> March 1998, and resigned as Co-Chairman on 2<sup>nd</sup> April 1998, as part of the rapid pulling out of International Pursuit from the affairs of Java Gold. However, Stephen Dattels is still shown on the corporation Profile Report as being a director of Mongolian Goldfields Corporation – a 100% subsidiary of Java Gold.

## George Creber QC – Director & Secretary of Java Gold

✘ <u>George Edgar Creber QC</u>	273 Glen Manor Drive, Toronto, Ontario, Canada M4E 2Y4	
Director	Java Gold Corporation (Ontario, JVAG on CDN)	historical: up to 19 Feb '98
Director	Mongolian Goldfields Corporation (Ontario)	as from 19 Nov '96
Secretary	Java Gold Corporation (Ontario, JVAG on CDN)	historical: up to 19 Feb '98
Secretary	Mongolian Goldfields Corporation (Ontario)	as from 23 Oct '96
President	International Pursuit Corporation (Ontario, IPJ on TSE)	current post as from Nov '98
Chairman	International Pursuit Corporation (Ontario, IPJ on TSE)	historical: 16 May '96 –Nov '98
Chief Executive Officer	International Pursuit Corporation (Ontario, IPJ on TSE)	current post, as from Nov '98
Director	International Pursuit Corporation (Ontario, IPJ on TSE)	current post, as from Apr '90
Chief Executive Officer	George Weston Ltd. (WN on TSE)	historical
Chief Executive Officer	Consumers Gas	historical
Partner & Lawyer	Fogler, Rubinoff, Barristers & Solicitors	current post

George Creber is a prominent Canadian lawyer and Queen's Counsellor. He is another leading member of the International Pursuit team, and for a while he was a Director and the Secretary of Java Gold up to 19<sup>th</sup> February 1998.

During Financial Year 1997, George Creber QC received consulting fees of an aggregate 24,000 US\$, and the law firm of which George Creber QC is a partner received fees from Java Gold Corporation to the amount of 119,550 \$.

George Creber QC resigned as Director and Secretary of Java Gold Corporation on 31<sup>st</sup> March 1998 as part of the rapid pulling out of International Pursuit from the affairs of Java Gold Corporation. However, he is still shown on the Corporation Profile Report as being a director of Mongolian Goldfields Corporation – a 100% subsidiary of Java Gold.

**William Burton – Director & President of Java Gold**



*Fig: 3 William Burton flanked by Eric Beaudoin (left) and Gary Beaudoin (right).*

✠ <b>William Burton</b>	1 Coulson Avenue, Toronto, Ontario, Canada M4V 1Y3	
President	Java Gold Corporation (Ontario, JVAG on CDN)	historical: 1 Jun '96 – 12 Nov'97
Director	Java Gold Corporation (Ontario, JVAG on CDN)	historical: pre1 Jun'96–12 Nov'97
President	Mongolian Goldfields Corporation (Ontario)	as from 20 Jun '96
Director	Mongolian Goldfields Corporation (Ontario)	as from 20 Jun '96
Director	Zaamar Goldfields Ltd. (British Virgin Islands)	historical: 23 Sep'96 – 14 Jul'98
Vice-President	International Pursuit Corporation (Ontario, IPJ on TSE)	historical: up to 31 Aug '98
Director	International Pursuit Corporation (Ontario, IPJ on TSE)	historical: up to 31 Aug '98
President & Director	Magnesium Alloy Corporation (YMY.U on CDN)	current post
Director	International Comstock Exploration Ltd. (COL on CDN)	current post from 27 Aug '98
Accountant	Adex Mining Corporation (AMG on TSE)	current post

William Burton was another leading member of International Pursuit's team, so for a while he was Director and officer of Java Gold. He was appointed President of Java Gold on 1<sup>st</sup> June 1996, and received a salary of 37,326 US\$ up to the end of the year, in addition to his other earnings. He ceased employment with Java Gold on 12<sup>th</sup> November 1997, and again his salary was 37,326 US\$. On 31<sup>st</sup> August 1998 he resigned from International Pursuit. But he is still in the Corporation Profile Report as a director of Mongolian Goldfields Corporation – a 100% subsidiary of Java Gold.

## **Breach of Minimum Number of Directors under Canadian Law**

Java Gold Corporation is a public company under the laws of Ontario and Canada. Therefore the MINIMUM number of directors is THREE. (**Canada Business Corporations Act - Section 102 subsection 2**).

Java Gold had 3 directors until the resignation of Gary German. The 2 remaining directors – Andrew Chater and Armand Beaudoin – had a legal duty to appoint a replacement director, to maintain the legal minimum of three directors. This they failed to do.

On 22<sup>nd</sup> January 1999, Andrew Chater resigned, leaving Armand Beaudoin as the only director. He had a legal duty to appoint 2 more directors that again he failed to do. On 5<sup>th</sup> July 1999, Armand Beaudoin passed away, so then Java Gold had no directors at all.

Each lack of action is a breach of Section 102 (2) of the Canada Business Corporations Act and of the Securities Act of Ontario, and renders Java Gold and directors (at the time) liable.

## **Breach of Requirement for Directors not to be Employees**

To avoid fraud and corrupt practices, the Canada Business Corporation Act (Section 102, subsection 2) requires that at least 2 of the minimum of 3 directors MUST NOT be officers or employees of Java Gold or of its affiliates.

When Gary German resigned there was only ONE director who not also an employee – Andrew Chater, as Armand Beaudoin was both a director and employee (President, Chairman and CEO).

After 22<sup>nd</sup> January 1999, upon the resignation of Andrew Chater, Java Gold was in total breach of Section 102 subsection 2 of the Canada Business Corporations Act in that it then had no directors who were not also officers or employees of the company.

At that time, the one remaining director of Java Gold – Armand Beaudoin – had a duty to take urgent steps to rectify this shortcoming, either by appointing 2 replacement directors by a decision of the Board (if only one director was still quorate according to the Java bye-laws) or arranging a Special Meeting of Shareholders to elect replacement directors. No steps were taken. This is a further breach of Section 102 (2) of the Canada Business Corporations Act.

## **Breach of Requirement for Resident Canadians**

Java Gold is a Canadian public company, thus 1/3 of its directors must be resident Canadians: "...not more than one-third of the directors of a holding corporation need be resident Canadians if the holding corporation earns in Canada directly or through its subsidiaries less than 5% of the gross revenues of the holding corporation and all of its subsidiary bodies corporate together as shown in a) the most recent consolidated financial statements of the holding corporation..." **Canada Business Corporations Act - Section 105 subsection 4**

Armand Beaudoin was a Canadian citizen, but not a "resident Canadian" as his main residence was in Indonesia. This was important after the resignations of Gary German and Andrew Chater, leaving only Armand Beaudoin from 22<sup>nd</sup> January 1999. He had a duty to take urgent steps to rectify this shortcoming, but did not. This is a further breach of Section 102 (2) of the Canada Business Corporations Act.

## **Breach of Canadian Laws – Audit Committee & Financial Statements**

Being a Canadian public company, Java Gold Corporation is required to have “an Audit Committee composed of not less than three directors of the corporation, a majority of whom are not officers or employees of the Corporation or any of its affiliates.” – **Canada Business Corporation Act – Section 171 subsection 1**. Java Gold had an Audit Committee which met these requirements, consisting of 3 directors: Armand Beaudoin (director & officer), Andrew M. Chater (director), and Gary G. German (director).

However, upon the resignation of Gary German in Nov/Dec 1998, Java Gold was in breach of Section 171 (1). The Audit Committee was no longer quorate. The two remaining directors of Java Gold – Armand Beaudoin and Andrew Chater – had a duty to take urgent steps to rectify this shortcoming, either appointing a replacement director by a decision of the Board (if only 2 directors was still quorate according to the Java bye-laws) or make arrangements for a Special Meeting of Shareholders to elect a replacement director. No such steps were taken. This is a breach of Section 171 (1), and a breach of the regulations of the Ontario Securities Commission.

Later, with the resignation of Andrew Chater, Java Gold had no directors who were not also officers or employees of the company. Thus no Audit Committee could exist at all. The one remaining director – Armand Beaudoin – had a duty under Canadian law to take urgent steps to rectify this shortcoming. No such steps were taken.

After the resignation on Andrew Chater on 22<sup>nd</sup> January 1999 the Company had only a single director, Armand Beaudoin. But TWO directors are required in order to issue the Annual Financial Statement: “Annual Financial Statements shall be approved by the board of directors of the reporting issuer and the approval shall be evidenced by the manual or facsimile signatures of two directors duly authorised to signify the approval.” **Securities Act of Ontario, RRO 1990 – Regulation 1015 section 11**.

Java Gold DID make strong efforts to comply with the reporting regulations but was prevented by lack of cash – and the insurmountable barrier of not having enough directors to constitute a quorum for Audit Committee or to authorise filings.

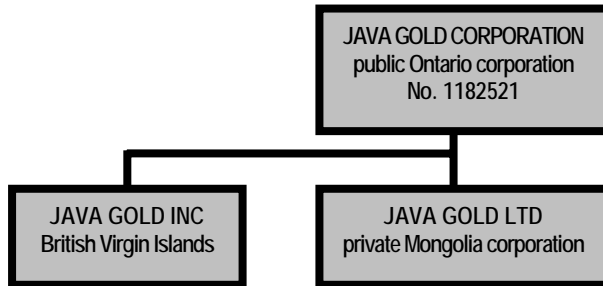
The Chief Financial Officer, John Herbert produced the 1998 Annual Financial Statement for Java Gold, duly forwarded to the auditors Ernst & Young in Toronto. But in June 1999, John Herbert was requested by Armand Beaudoin to resign as Chief Financial Officer of Java Gold as the company had a cash flow problem and it would be some time before project finance would be available at which point he could rejoin. John Herbert duly submitted his letter of resignation, accepted by Armand Beaudoin on behalf of Java Gold.

The official auditors of Java Gold, Ernst & Young of Toronto, still required some audit confirmation from Armand Beaudoin before they could sign off the 1998 Financial Statement. But on 5<sup>th</sup> July 1999, Armand Beaudoin passed away in Mongolia whereupon – due to lack of prior action by Armand Beaudoin (and earlier by Armand Beaudoin and Andrew Chater) – not a single other director or officer remained. Thus no person now existed with the authority to supply the auditors with further information, nor any Audit Committee to also be consulted. Thus to this day the end-of-year 1998 Financial Statement remains unaudited and unreleased.

About August/September 1999, Ernst & Young of Toronto resigned as auditors of Java Gold, as no information could be obtained from the company.

### The THREE Java Gold Companies

THREE companies exist, ALL named ‘Java Gold’, ALL created by Armand Beaudoin:



**Java Gold Corporation** began as a private Ontario corporation and became the public Ontario Corporation (JVAG on CDN), as described in this report.

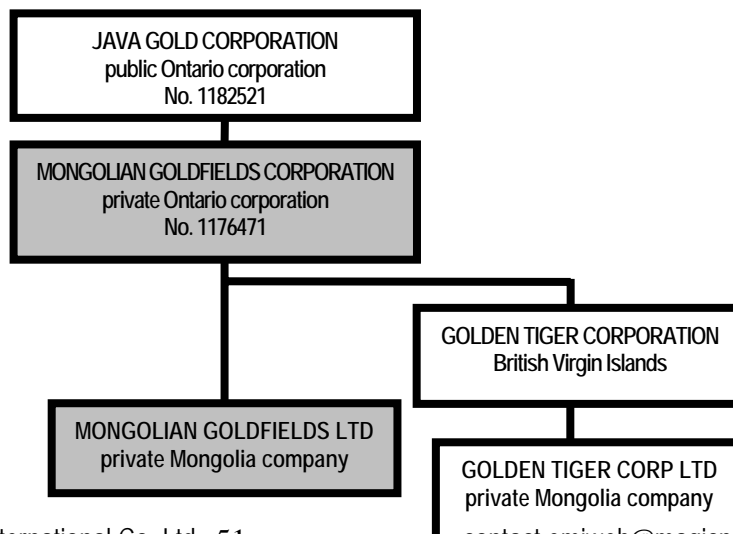
**Java Gold Inc** is a private company registered in the British Virgin Islands that was 100% owned by Armand Beaudoin and was sold to Java Gold Corporation for which Armand Beaudoin was paid 3,000,000 common shares in Java Gold Corporation at an issue price of 0.25 CDN\$ per share. It appears that a payment of 500,000 US\$ was also made to Armand Beaudoin. The assets of Java Gold Inc. have not been investigated.

**Java Gold Ltd.** is a private company established in 1997 and registered under the Foreign Investment Law of Mongolia as “a company with 100% foreign investment”, in this case “100% Canadian foreign investment.” Java Gold Ltd. is 100% owned by Java Gold Corporation (Ontario), and its registered address is: Barmash Building, Chinggis Khan Avenue, Ulaanbaatar 31, Mongolia. Java Gold Ltd. held a few Exploration Licenses for hard-rock gold in Mongolia:

- X-056 Zavkhan Mandal Talbai      3,772 km<sup>2</sup>      Uliastai Aimag, west Mongolia
- X-058 Dashbalbaryn Talbai      29,136 hectares      Sukhbaatar Aimag, east Mongolia

### The TWO Mongolian Goldfields Companies

TWO different companies exist with the name of Mongolian Goldfields; both created by Armand Beaudoin. The justification is clear. At the time that Mongolian Goldfields Corporation (Ontario) first arrived in Mongolia, the “old” minerals law was still in force. Thus it was necessary to establish a Mongolian subsidiary – Mongolian Goldfields Ltd. – to obtain Exploration Licenses.



## Mongolian Goldfields – Links with Java Gold

**Mongolian Goldfields Corporation (MGC)** began as a legal entity registered on 24<sup>th</sup> April 1996, under the laws of Ontario as a private corporation (Corporation Number 1176471). MGC arrived in Mongolia in 1996 and “engaged in the business of exploring for and development of gold and other precious metals in Mongolia” and “focussed its initial activities on the placer gold business.”

In 1996, MGC “imported into Mongolia portable alluvial testing facility and entered into field testing agreements with Mongolian private and state-owned companies with the objective of entering into contract mining contracts with them.” Furthermore, “Mongolian, through local subsidiaries, has acquired working interests in additional special and strategic hard rock gold exploration licenses.”

The Exploration and Mining Licenses controlled by MGC have been researched by EMI and determined to have been all bar one via local companies:

LICENSE	TYPE	LOCATION	TARGET	LICENSE HOLDER	CONTROL by MGC
X-057	Exploration	Salkhit	Hard Rock Gold	Zovlokhuud Ltd.	85%
X-058	Exploration	Dashbalbar	Hard Rock Gold	Golden Tiger Ltd.	100%
X-059	Exploration	Ikh Bogd	Hard Rock Gold	Barmash JSC	100%
X-062	Exploration	West Gobi	Hard Rock Gold	Mongolian Goldfields Ltd.	100%
A-001	Mining	Toson Alluvials	Placer Gold	Zovlokhuud Ltd.	85%
A-002	Mining	Ulunt Tsamkhag	Placer Gold	TAS Corporation	80%
A-066	Mining	Toson Terrace	Placer Gold	Gazar Toson Ltd.	100%

## Mongolian Goldfields Corporation – Takeover by Java Gold

On 4<sup>th</sup> March 1997, Java Gold Corporation announced its intention to make an offer to acquire all issued and outstanding shares of Mongolian Goldfields Corporation (MGC) by offering one share of Java Gold for every two shares of MGC.

At the time, Armand Beaudoin was owner of c.31.6% of the 12,650,001 shares of MGC, a fact revealed to shareholders and regulators in Canada. Because MGC was a private Ontario company with less than 50 shareholders, the takeover transaction was exempt from the obligation to prepare and deliver a take-over bid circular and exempt from certain other requirements in Canadian securities legislation.

Effective 28<sup>th</sup> April 1997, Java Gold acquired 100% of the outstanding common shares of MGC by issuing one common share of Java Gold for every two of the 12,650,001 common shares of MGC. As a result, Java Gold issued approximately a further 6,325,001 common shares valued at 0.47 US\$ (0.65\$ Canadian) per share.

## Board of Mongolian Goldfields Corporation

According to the current filed Corporation Profile Report of Mongolian Goldfields Corporation (MGC), issued on the 8<sup>th</sup> May 2000, the directors and officers are:

✘ <u>William Burton</u>	1 Coulson Avenue, Toronto, Ontario, Canada M4V 1Y3
President	Mongolian Goldfields Corporation as from 20 Jun '96
Director	Mongolian Goldfields Corporation as from 20 Jun '96
✘ <u>George Edgar Creber QC</u>	273 Glen Manor Drive, Toronto, Ontario, Canada M4E 2Y4
Secretary	Mongolian Goldfields Corporation as from 23 Oct '96
Director	Mongolian Goldfields Corporation as from 19 Nov '96
✘ <u>Stephen R. Dattels</u>	100 Glengowan Road, Toronto, Ontario, Canada M4N 1G4
Director	Mongolian Goldfields Corporation as from 20 Jun '96
<u>Michael Beck</u>	10603 Dogwood Farmlane, Great Falls, Virginia, USA 22066
Director	Mongolian Goldfields Corporation as from 20 Jun '96
<u>Khajidsuren Chojijilin</u>	Apt 54, Block 17, Subdistrict V1, Chingelti District, Ulaanbaatar
Director	Mongolian Goldfields Corporation as from 19 Nov '96
<u>Ian Mankeltow</u>	1896 Knights Court, Mississauga, Ontario, Canada L5K 2N4
Officer	Mongolian Goldfields Corporation as from 23 Oct '96
<u>Armand Beaudoin</u>	J1. Wijaya 1, No.71 Kebayoran, Baru, Jakarta, Indonesia 121170
Officer	Mongolian Goldfields Corporation as from 20 Jun '96

While this composition of the Board and Officers may have been reasonable when MGC was an independent company, and perhaps still reasonable for some time after its takeover by Java Gold Corporation, the continuing effective control of MGC by directors and officers of International Pursuit Corporation is remarkable, and unreasonable.

This fact has not been revealed to their shareholders by the management of International Pursuit or Java Gold.

### TAS Corporation – Links with Java Gold

**TAS Corporation** is a 100% privately owned Mongolian company, which in 1999 ranked 10<sup>th</sup> amongst the gold producers in Mongolia, producing 213.9 kilos of gold (after allowing for purity) valued at 1,854,000 US\$ (at a price of 8.67 US\$ per gram NET).

Upon the arrival of Armand Beaudoin, a close relationship emerged between TAS and Mongolian Goldfields Corporation (MGC). A considerable sum – 3m US\$ – was lent to TAS by MGC under ‘the TAS Agreement’, a material fact declared by Java Gold and International Pursuit.

Armand Beaudoin gained 31.6% of the benefit of the sale of MGC to Java Gold that carried the 3m\$ TAS debt onto the balance sheet of Java Gold, yet he was both the Chairman of Java Gold and on the TAS Governing Council! This ‘material fact’ should have been disclosed. It was not.



*Fig. 3: Governing Board of TAS Corporation in 1998. Armand Beaudoin is seated (right) and Khajidsuren is standing (second from left).*

In contrast, Ch. Khajidsuren has never been a director or officer of Java Gold; thus the circumstances are rather different. However she was a director of MGC at the same time as being on the TAS Governing Council, and also a director of many subsidiaries of Java Gold, such as: Zaamar Goldfields Ltd. (registered in the BVI), its subsidiary Zaamar Goldfields Ltd. (registered in Mongolia) and Golden Tiger Corporation (registered in the BVI).

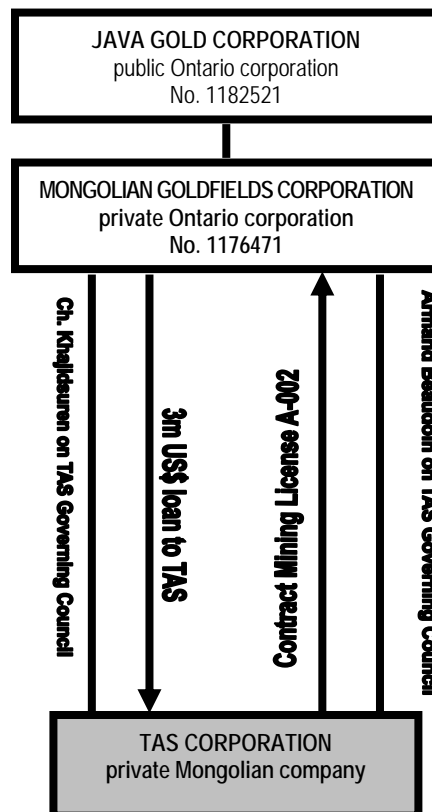
At no time, before, during or since the take-over of MGC, was it disclosed by Java Gold that Armand Beaudoin and Choilin Khajidsuren were on the 7-strong TAS Governing Council, a fact revealed in an advertisement of TAS Corporation in 1998 which included a group photograph of all 7 members of the TAS Governing Council, plus their signatures (see photo above).

**‘The TAS Loan’** was funded 50:50 by International Pursuit and MGC: *“Mongolian Goldfields Corporation and International Pursuit Corporation have each funded half of the TAS loan and as consideration for Pursuit’s 1,500,000 US\$ contribution has received a 50% interest in each of TAS’s assignments of its 20% interest in net profits to Mongolian Goldfields Corporation and the Pledge, in addition to a 12.5% interest in Mongolian Goldfields Corporation’s interest in the net profits.”*

**‘The TAS Agreement’** of 26<sup>th</sup> August 1996 was a ‘contract mining’ and profit sharing agreement whereby MGC became exclusive surface gold mining contractor for the TAS Mining License in the Bukhelei district, Selenge Aimag – License A-002 Ulunt Tsamkhag. MGC (thus now Java Gold) was required to fund the purchase of equipment (including a large gold dredge) and pay all operating costs and royalties. Net profits were to be distributed 80% to MGC, 20% to TAS.

Part of the logic for MGC (in effect Armand Beaudoin backed by International Pursuit) giving the 3m US\$ ‘TAS Loan’ was remarkable – *“As additional compensation for the license and to encourage TAS and Jamyanyav Batbaatar to assist Mongolian Goldfields Corporation and the Company in its negotiations with the Government of Mongolia, Mongolian Goldfields Corporation agreed to loan TAS 3,000,000 US\$ (“the TAS loan”) by way of a demand promissory note bearing interest at the rate of 8% per annum, of which 1,500,000 US\$ was funded by each of International Pursuit Corporation and Mongolian Goldfields Corporation.”*

At the time of ‘the TAS Agreement’ and the 3m US\$ ‘TAS Loan’ both TAS and MGC were private companies, and did not need to report publicly. However, MGC was subject to a successful takeover by Java Gold Corporation – a public company.

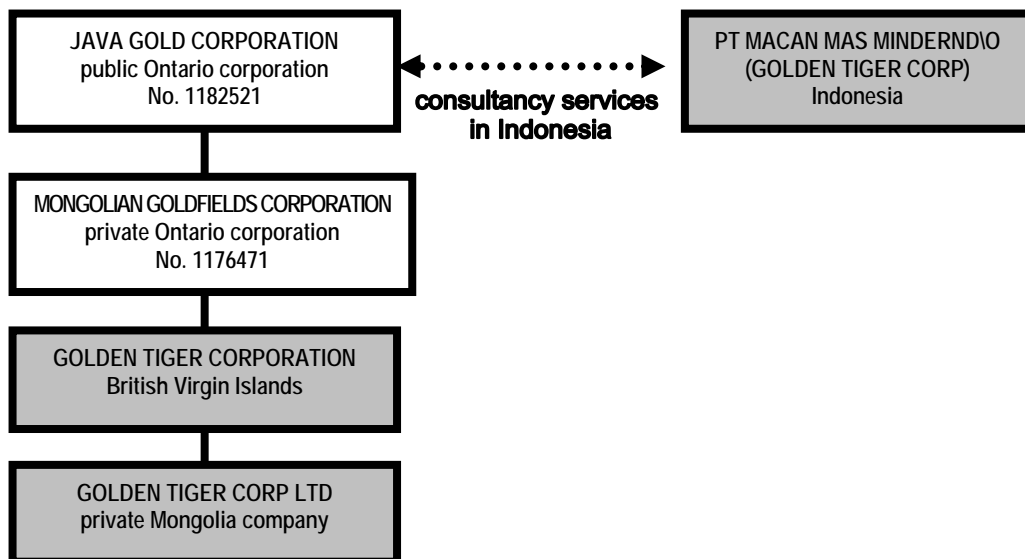


The TAS Loan was paid in full in March 1997, as shown by the 1997 Annual Information Form of International Pursuit audited by Ernst & Young of Toronto. *“The final 1,000,000 US\$ of this TAS loan was advanced in March 1997 (of which International Pursuit Corporation funded 500,000 US\$) upon the granting of hard rock mineral exploration licenses covering at least 4,000,000 hectares to Mongolian Goldfields Corporation together with the Company.”* Thus it is evident that the TAS Loan was intended to assist International Pursuit and MGC gain huge exploration licenses, far bigger in total than usually permitted at that time. This is confirmed by 1m US\$ of the 3m US\$ being forgiven *“In the event that at least 6,000,000 hectares of hard rock mineral exploration licenses is granted to Mongolian Goldfields Corporation together with International Pursuit Corporation, 1,000,000 US\$ of the TAS loan will be forgiven with International Pursuit sharing in the forgiveness based on the percentage of hectares of hard rock mineral exploration licenses granted to International Pursuit, relative to the number of hard rock mineral exploration licenses granted to International Pursuit and Mongolian Goldfields Corporation.”* In the event, the 6,000,000 hectares required for forgiveness was almost, but not quite, achieved, and thus no forgiveness took place.

Collateral for the 3m US\$ TAS loan was given, known as ‘the TAS Pledge’, namely 65% of the shares in TAS held by TAS’s President, Jamyanjav Batbaatar. In addition, TAS assigned its 20% interest in the net profits to MGC until the entire TAS Loan was repaid in full. In the event, the TAS Loan could not be repaid, as Java Gold did not exploit the TAS Mining License A-002, probably due to being unable to raise the finance for the dredge – in spite of lending 3m US\$ to TAS. Remarkably, Java Gold made no attempt to renegotiate the TAS Agreement.

### The THREE Golden Tiger Companies

THREE different companies exist, ALL named ‘Golden Tiger’, created by Armand Beaudoin:



**PT Macan Mas Minderindo (“Golden Tiger”)** is a private Indonesian corporation, of which Armand Beaudoin was principal. His Indonesian “Golden Tiger” was independent of the two other “Golden Tigers” and stayed as a private company independent of Java Gold. It became the local operating partner for Java Gold’s activity in Indonesia – in the 322-period of Java’s 1996 Financial Year, “Golden Tiger” received 79,450 US\$ from Java Gold for provision of technical and administrative support. In 1997, “Golden Tiger” received consulting fees of 203,340 US\$ for the provision of financial, administrative and logistical services. This was one of the channels whereby Armand Beaudoin gained profit from Java Gold.

**Golden Tiger Corporation (GTC)** is a private company registered in the British Virgin Islands whose place of business was, at least in 1996, in Singapore: 24 Raffles Place No.26-04A Clifford Centre, Singapore 0104. It was the first of Armand Beaudoin's companies to arrive in Mongolia, and was a 100% subsidiary of Mongolian Goldfields Corporation (MGC) at the time of the 100% purchase of MGC by Java Gold Corporation:

**MONGOLIA**  
**THE NEW GOLD COUNTRY**

International Parcel Corporation (IPC) and Java Gold Corporation (JGC) have combined Golden Tiger Corporation (GTC) corporations resources / expertise for full Mongolia operations.

GTC has carried out extensive research and assessment of several gold deposits in the Eastern region and various deposits in several other Mongolian provinces.

Results have revealed the largest silver/gold reserves anywhere on this planet.

More than 90 spots of gold mining operations are active throughout the country. Mongolia/ Tibet were never like this.

GTC has established production sharing Contracts with private and state companies. GTC has purchased a majority interest in public listed "Barmack Company" on the Mongolian Stock Exchange in Ulaanbaatar. The Company owns a very large fabrication shop, of which includes 2000 square meters of office space.

The construction of mobile mining plants is currently in progress. Four plants will go into production in April this year. Renovation and refurbishing of the office space is underway to eventually provide modern full service business facilities for foreign mining companies planning to explore in Mongolia.

IPC - JGC - GTC Group is the most active group in Mongolia, with large exploration areas covering extensive gold deposits and unexplored areas in several provinces.

**Armand Beaudoin**  
President  
Golden Tiger Corporation

"Mongolia is the least explored of all Central Asian Countries."  
"It has the greatest potential for mineral discoveries of recent times."

This year shall see positive results from the field programs. Helicopters and well organized logistics on the ground will support over 100 geologists in the field.

Australian contractor Barry Voss of Radial Drilling is scheduled to start drilling programs in early May 1997.

Canadian Wilman Pty. Ltd. of Whistler, Canada will establish a new independent international laboratory with full facilities by late 1997.

Mongolian based technology will support the country for advanced geophysical digital mapping and computer assisted geological modelling.

Fig. 4: Example of promotional literature of Golden Tiger Corporation in early 1997.

**Golden Tiger Corp. Ltd.** is a private company registered in Mongolia as a Mongolian company with 100% foreign investment. At that time, the creation of a local subsidiary was the only practical means of obtaining Exploration Licenses and investing in plant and equipment.

## Directors & Officers of Golden Tiger Corporation

The directors and officers of Golden Tiger Corporation included:

Armand Beaudoin Nationality: President Director	J1. Wijaya 1, No.71 Kebayoran, Baru, Jakarta, Indonesia 121170 Canadian (Indonesian resident) Golden Tiger Corporation (British Virgin Islands) Golden Tiger Corporation (British Virgin Islands)	historical: pre-'96 – 5 Jul'99 historical: pre-'96 – 5 Jul'99
Gary J. Beaudoin Nationality: Operations Manager	(son of Armand Beaudoin) Canadian Golden Tiger Corporation (British Virgin Islands)	historical: pre-'96 – Nov '97
Eric Beaudoin Nationality: Project Manager	(son of Armand Beaudoin) Canadian Golden Tiger Corporation (British Virgin Islands)	historical: pre-'96 – Nov '97
John M. Herbert Nationality: Corporate & Financial Exec	J1. Wijaya 1, No.71 Kebayoran, Baru, Jakarta, Indonesia 121170 Australian Golden Tiger Corporation (British Virgin Islands)	historical: pre-'96–Jun'99
Trudi Washington Nationality: Office Manager & PA	Australian or British Golden Tiger Corporation (British Virgin Islands)	historical: 1996 – late '97?

Subsequently, the management of Golden Tiger Corporation (GTC) appears to have passed to Harry L. Vassar (US citizen) and Choljiliin Khajidsuren (Mongolian citizen).

### Activities of Golden Tiger Corporation GTC)

In 1996 Golden Tiger Corporation (GTC) conducted scientific bulk sampling tests on the Toson Terrace deposits at Zaamar (Mining License A-066), and at Erdes Bayangol Mining License and “*acquired mining rights to the Toson Terrace deposits.*”

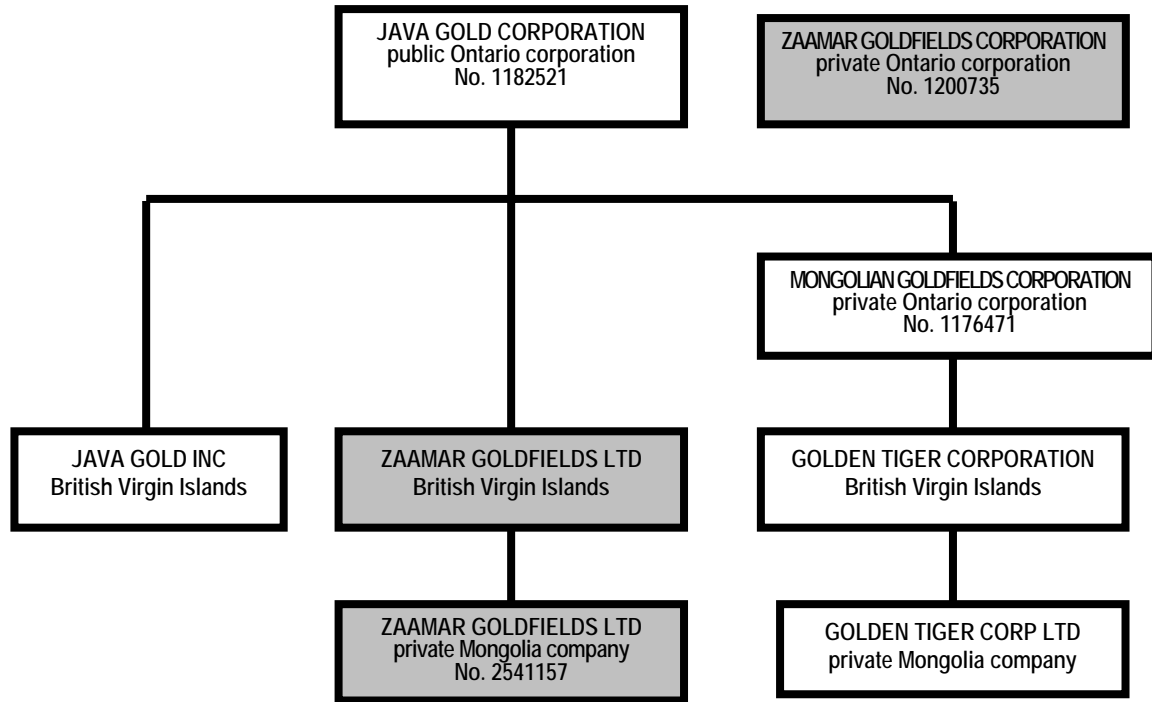
The bulk sampling of the Toson Terrace deposits was conducted between 6<sup>th</sup> August 1996 and 25<sup>th</sup> September 1996 under the supervision of Gary Beaudoin, and was undertaken to an exceptionally high standard. A summary has recently been published (G.Beaudoin 2000, this volume).

On 4<sup>th</sup> December 1996, Golden Tiger Corporation via Gold Tiger Corp. Ltd. (Mongolia) was the ‘front name’ of MGC (and subsequently Java Gold Corporation) for hard-rock gold Exploration License X-058 Dasbalbaryn Talbai.

In 1997, Golden Tiger Corporation (GTC) was the ‘front name’ of Java Gold Corporation in a failed attempt at large-scale placer mining of the Toson Terrace deposit.

### The THREE Zaamar Goldfields Companies

THREE different companies exist ALL with the name of Zaamar Goldfields, all created by Armand Beaudoin: Below is a summary – note that Zaamar Goldfields Corporation (Ontario) is a ‘shadow’ company, NOT connected with Java Gold Corporation in the legal sense.



### Zaamar Goldfields Corporation (Ontario)

**Zaamar Goldfields Corporation**'s existence came as a surprise, revealed by searching of Canadian databases by Internet. It was NEVER revealed to shareholders of Java Gold.

On 23<sup>rd</sup> September 1996, Zaamar Goldfields Corporation was registered under the laws of Ontario as a private corporation (Corporation number 1200735). But there is **NO direct ownership connection** between Zaamar Goldfields Corporation and Java Goldfields Corporation – in spite of the close similarity in name with Zaamar Goldfields Ltd. (BVI) and Zaamar Goldfields Ltd. (Mongolia)! The reason for creating Zaamar Goldfields Corporation is unclear. Zaamar Goldfields Corporation (Ontario) has most of its directors and officers shared with those of Java Gold or its affiliates or related companies – including International Pursuit (shown by ☑).

Mining License A-01 – Java Gold's biggest asset – was transferred on 8<sup>th</sup> November 1997 from Zovlokhuud Ltd. (FNC) to Zaamar Goldfields Ltd. (Mongolia). But the contact name for Zaamar Goldfields Ltd. (Mongolia) is given as William Stearns Vaughan – who has never been its director or officer BUT IS the sole Director of a different company – Zaamar Goldfields Corporation (Ontario) – since 23<sup>rd</sup> September 1996. This is rather confusing.

A contract exists whereby Zovlokhuud Ltd. (FNC) transferred Mining License A-01 dated 30<sup>th</sup> September 1997, 10 days before the Cadaster recorded the change of ownership. The contract has a signature – not identified – alongside the typed name of William Stearns Vaughan on behalf of Zaamar Goldfields Corporation. It is duly stamped with the seal of a company – but NOT the stamp of Zaamar Goldfields Corporation, but the stamp of Zaamar Goldfields Ltd.!

## Directors & Officers of Zaamar Goldfields (Ontario)

According to a recent Corporation Profile Report, the Directors and Officers are:

<input checked="" type="checkbox"/> <u>William Stearns Vaughan</u>	72 Inglewood Drive, Toronto, Ontario, Canada M4T 1H3	
Director	Zaamar Goldfields Corporation (Ontario)	as from 23 Sep '96
<input checked="" type="checkbox"/> <u>William Burton</u>	1 Coulson Avenue, Toronto, Ontario, Canada M4V 1Y3	
President	Zaamar Goldfields Corporation (Ontario)	as from 23 Sep '96
President	Mongolian Goldfields Corporation (Ontario)	as from 20 Jun '96
Director	Mongolian Goldfields Corporation (Ontario)	as from 20 Jun '96
Director	Zaamar Goldfields Ltd. (British Virgin Islands)	historical: 23 Sep '96 – 14 Jul '98
President	Java Gold Corporation (Ontario, JVAG on CDN)	historical: 1 Jun '96 – 12 Nov '97
Director	Java Gold Corporation (Ontario, JVAG on CDN)	historical: up to 12 Nov '97
<input checked="" type="checkbox"/> <u>George Edgar Creber QC</u>	273 Glen Manor Drive, Toronto, Ontario, Canada M4E 2Y4	
Secretary	Zaamar Goldfields Corporation (Ontario)	as from 23 Sep '96
Secretary	Mongolian Goldfields Corporation (Ontario)	as from 23 Oct '96
Director	Mongolian Goldfields Corporation (Ontario)	as from 19 Nov '96
Director	Java Gold Corporation (Ontario, JVAG on CDN)	historical: up to 19 Feb '98
Secretary	Java Gold Corporation (Ontario, JVAG on CDN)	historical: up to 19 Feb '98
<input checked="" type="checkbox"/> <u>Stephen R. Dattels</u>	100 Glengowan Road, Toronto, Ontario, Canada M4N 1G4	
Officer	Zaamar Goldfields Corporation (Ontario)	as from 23 Sep '96
Director	Mongolian Goldfields Corporation (Ontario)	as from 20 Jun '96
Chairman	Java Gold Corporation (Ontario, JVAG on CDN)	historical: 1 Jun '96 – May '97
Co-Chairman	Java Gold Corporation (Ontario, JVAG on CDN)	historical: May '97 – 2 Apr '98
Director	Java Gold Corporation (Ontario, JVAG on CDN)	historical: up to 2 Apr '98
<u>Armand Beaudoin</u>	J1. Wijaya 1, No.71 Kebayoran, Baru, Jakarta, Indonesia 121170	
Officer	Zaamar Goldfields Corporation (Ontario)	as from 23 Sep '96
General Director	Zaamar Goldfields Ltd (British Virgin Islands)	historical: 25 Oct '96 – 5 Jul '99
General Director	Zaamar Goldfields Ltd (Mongolia)	historical: 9 Jun '98 – 5 Jul '99
Officer	Mongolian Goldfields Corporation (Ontario)	historical: 20 Jun '96 – 5 Jul '99

The name of Armand Beaudoin should have been deleted, once he passed away. Disturbingly, and in breach of Canadian and perhaps Mongolian laws, Armand Beaudoin repeatedly used headed notepaper of Zaamar Goldfields Corporation (often with footer: 172 King Street East, Toronto, Ontario, Canada) when in official correspondence on behalf of Zaamar Goldfields Ltd. (Mongolia), for instance in a letter with Robin Grayson dated 3<sup>rd</sup> February 1998. Zaamar Goldfields Corporation (Ontario) is also mentioned in literature for Barmash JSC.

### Zaamar Goldfields (BVI) – Links with Java Gold (Ontario)

Zaamar Goldfields Ltd. is a company incorporated under the laws of the British Virgin Islands, incorporated on 25<sup>th</sup> October 1996. At some point, probably from the start, it became a 100% subsidiary of Java Gold as depicted in the 1997 Annual Information Form for Java Gold.

The authorised share capital of Zaamar Goldfields Ltd. (BVI) is 10,000 shares at 1 US\$ each, totalling 10,000 US\$. The issued share capital of Zaamar Goldfields Ltd. (BVI) is 2 bearer shares of 1 US\$ each, held by Java Gold.

All the Mongolian mining assets of Java Gold Corporation and its daughter companies were transferred to Zaamar Goldfields Ltd. (BVI) as from 1<sup>st</sup> January 1997. This was an internal transfer within the Java Gold 'Group' and included two Mining Licenses, Plant and Equipment and Infrastructure development. The transfers were effected at cost basis as acquired by the Java Gold Group with provisions for depreciation, provided where applicable at the date of the transfer. Financing of the transfer was by loans from Java Gold.

This asset transfer was a material change and should have been revealed to shareholders of Java Gold, but was hidden. It should have been stated in the 1997 Annual Information Form and 1997 Annual Report for Java Gold. These omissions are a breach of the Securities Act of Ontario. The ownership chart in the 1997 Annual Information Form is substantially erroneous.

## Directors & Officers of Zaamar Goldfields (British Virgin Islands)

The only current director of Zaamar Goldfields Ltd. (BVI) is:  
**Khajidsuren Chojiliin** Apt 54, Block 17, Subdistrict V1, Chingelti District, Ulaanbaatar  
 Director Zaamar Goldfields Ltd. (British Virgin Islands) current post, from 14 Jul '98

Recent directors of Zaamar Goldfields Ltd. (BVI) were:  
**Armand Beaudoin** J1. Wijaya 1, No.71 Kebayoran, Baru, Jakarta, Indonesia 121170  
 Director Zaamar Goldfields Ltd. (British Virgin Islands) historical: 25 Oct '96 – 5 Jul '99  
**Khajidsuren Chojiliin** Apt 54, Block 17, Subdistrict V1, Chingelti District, Ulaanbaatar  
 Director Zaamar Goldfields Ltd. (British Virgin Islands) current post, from 14 Jul '98  
**John M. Herbert** 21 Coolum View Terrace, Buderim, Queensland, Australia 4776  
 Director Zaamar Goldfields Ltd. (British Virgin Islands) historical: 14 Jul '98 – Jun '99

The first directors of Zaamar Goldfields Ltd. (BVI) were:  
**Armand Beaudoin** J1. Wijaya 1, No.71 Kebayoran, Baru, Jakarta, Indonesia 121170  
 Director Zaamar Goldfields Ltd. (British Virgin Islands) historical: 25 Oct '96 – 5 Jul '99  
**William Burton** 1 Coulson Avenue, Toronto, Ontario, Canada M4V 1Y3  
 Director Zaamar Goldfields Ltd. (British Virgin Islands) historical: 23 Sep '96 – 14 Jul '98

## Zaamar Goldfields (Mongolia) – Links with Java Gold (Ontario)

**Zaamar Goldfields Ltd.** is a company with 100% foreign investment registered with the Board of Foreign Investment (BFI now renamed FIFTA). It is generally assumed to be “the same” as Zaamar Goldfields Ltd. (BVI), as for instance in the wording of the contract signed by Armand Beaudoin on behalf of Zaamar Goldfields Ltd. (Mongolia) with Monpolymet Ltd. But for the 2 companies to actually be “one and the same company” would NOT be possible under Mongolian law. Merely having identical company names is not a legal basis for common identity. Instead, Zaamar Goldfields Ltd. (Mongolia) is a separate legal entity, albeit with 100% ownership by Zaamar Goldfields Ltd. (BVI) – and by this route 100% ownership by Java Gold.

The current directors of Zaamar Goldfields Ltd. (Mongolia) are:

<b>Harry L. Vassar</b>	Ulaanbaatar, Mongolia	
Nationality:	USA (non-resident)	
General Director	Zaamar Goldfields Ltd. (Mongolia)	current post, from Jul '00
General Director	Barmash Joint Stock Company (Mongolia)	current post, as from 2 Sep '99
<b>Khajidsuren Chojiliin</b>	Apt 54, Block 17, Subdistrict V1, Chingelti District, Ulaanbaatar	
Nationality:	Mongolian	
Director	Zaamar Goldfields Ltd. (Mongolia)	current post, from 9 Jun '98
Director	Mongolian Goldfields Corporation	current post, from 19 Nov '96
General Director	Barmash Joint Stock Company (Mongolia)	historical: 22 Aug '96 – 2 Sep '98
Governing Council Member	TAS Corporation (Mongolia)	?1996 – present
Secretary	First National Consultants Ltd. (Mongolia)	current
<b>Jamjinjav Batbaatar</b>	Ulaanbaatar, Mongolia	
Nationality:	Mongolian	
Director	Zaamar Goldfields Ltd. (Mongolia)	current post, from 9 Jun '98
President	TAS Corporation (Mongolia)	current post
Director	TAS Corporation (Mongolia)	current post
Controlling shareholder	TAS Corporation (Mongolia)	current post

The appointment and continuance of Jamjinjav Batbaatar as Director of Zaamar Goldfields Ltd. (Mongolia) appears highly inappropriate from the standpoint of shareholders in Java Gold Corporation in view of TAS Corporation owing Java Gold the sum of 3 million US\$.

Previous Directors of Zaamar Goldfields Ltd. (Mongolia) were:

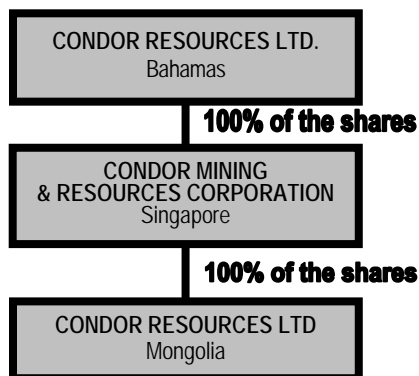
<u>Armand Beaudoin</u>	J1. Wijaya 1, No.71 Kebayoran, Baru, Jakarta, Indonesia 121170	
Nationality	Canadian (non-resident)	
General Director	Zaamar Goldfields Ltd (Mongolia)	historical: 9 Jun '98 – 5 Jul '99
<u>Khajidsuren Choijiliin</u>	Apt 54, Block 17, Subdistrict V1, Chingelti District, Ulaanbaatar	
Nationality	Mongolian	
Director	Zaamar Goldfields Ltd. (Mongolia)	as from 9 Jun '98
<u>John M. Herbert</u>	21 Coolum View Terrace, Buderim, Queensland, Australia 4776	
Nationality	Australian	
Director	Zaamar Goldfields Ltd (Mongolia)	historical: 9 Jun '98 – Jun '99
Chief Financial Officer	Java Gold Corporation (Ontario, JVAG on CDN)	historical:pre 30 Jun'98–Jun '99
<u>Jamjinjav Batbaatar</u>	Ulaanbaatar, Mongolia	
Nationality	Mongolian	
Director	Zaamar Goldfields Ltd. (Mongolia)	as from 9 Jun '98
General Director	TAS Corporation (Mongolia)	current post

The original director of Zaamar Goldfields Ltd. (Mongolia) was:

<u>Sh. Sukhbaatar</u>	Ulaanbaatar, Mongolia	
Nationality	Mongolian	
Director	Zaamar Goldfields Ltd. (Mongolia)	historical: 17 Nov '97 - 9 Jun '98

### The THREE Condor Companies

THREE different companies exist ALL with the name of Condor, all created by Armand Beaudoin. Below is a summary. None were connected with Java Gold Corporation in the legal sense, but were a conduit for Armand Beaudoin to channel cash from Java Gold.



**Condor Resources Ltd.** was stated to be part of the ‘Golden Tiger Group’ in a three-page advertisement that appeared in Mongolia in 1998. The same advertisement stated that Condor Resources Ltd. was “*from Bahamas*”. However there is no evidence to suggest that any of the 3 Condor companies were subsidiaries of Java Gold, at all times remaining as private companies controlled by Armand Beaudoin. The advertisement stated that the company was based at “*the Minerals House of Mongolia*” – Barmash Building, Chinggis Khan Avenue, Ulaanbaatar 31, Mongolia. No further information has been gathered about this company.

**Condor Mining & Resources Corporation** was claimed to be part of the ‘Golden Tiger Group’ in the same a three-page advertisement which appeared in Mongolia in 1998. The same advertisement stated that Condor Mining & Resources Corporation was “*from Singapore*” and that the company was based at “*the Minerals House of Mongolia*” – Barmash Building, Chinggis Khan Avenue, Ulaanbaatar 31, Mongolia.

**Condor Resources Ltd.** – a DIFFERENT Condor Resources Ltd. was registered with the Board of Foreign Investment of Mongolia on 17 October 1997 as a company with foreign investment, 100% Singaporean investment, company registration number 97/216, whose registered address was: Barmash Building, Chinggis Avenue, Han-Uul District, Ulaanbaatar, Mongolia.

Armand Beaudoin is believed to have been the General Director of Condor Resources Ltd. (Mongolia), and probably owned all or most of the shares, albeit indirectly via the Singaporean company. According to the 1997 Annual Report for Java Gold: “*Armand Beaudoin was appointed Chief Executive Officer and Co-Chairman of Java Gold in the Spring of 1997 and has a controlling interest in Condor.*”

Condor Resources Ltd. was liquidated on 11<sup>th</sup> April 2000 at the request of the company by the Mongolian authorities (FIFTA). This followed the failure of the company to reregister in December 1999 in accordance with Mongolian regulations.

### **Barmash JSC (Mongolia) – Links with Java Gold (Ontario)**



*Fig: 5: General view of the Barmash Building in Ulaanbaatar.*

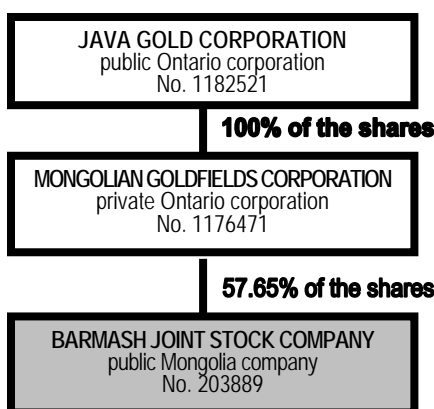
**Barmash Joint Stock Company** was established on 30<sup>th</sup> September 1996 as a public company (registration No.203889), with shares traded on the Mongolian Stock Market. Its headquarters are: Barmash Building (often referred to as the Minerals House of Mongolia), Chinggis Khan Avenue, Ulaanbaatar. The spacious office premises and workshops housed Java Gold Corporation (Ontario, JVAG on CDN), International Pursuit Corporation (Ontario, IPJ on TSE), Dyak Goldfields Corporation (Ontario, DYAK on CDN), Mongolian Goldfields Corporation (Ontario), Golden Tiger Corporation (BVI), Zaamar Goldfields Ltd. (Mongolia), Condor Resources Ltd. (Mongolia), GIS Asia Ltd., Gobi Drilling Ltd. etc.

From 2<sup>nd</sup> September 1998, the General Director of Barmash JSC was Armand Beaudoin until he passed away in July 1999..

In late 1996 Mongolian Goldfields Corporation (at the time the largest shareholder was Armand Beaudoin with 31.6%) gained a controlling block of 57.65% of the shares of Barmash JSC:



Effective 28 April 1997, Java Gold acquired 100% of the outstanding shares of Mongolian Goldfields Corporation, and thus acquired control of the 57.65% interest in Barmash JSC.



The Current General Director of Barmash JSC is:

<u>Harry L. Vassar</u>	Ulaanbaatar, Mongolia	
General Director	Barmash Joint Stock Company (Mongolia)	current post, as from 2 Sep '99
General Director	Zamar Goldfields Ltd. (Mongolia)	current post, from Jul '00

Harry Vassar replaced Armand Beaudoin, a few months after he passed away:

<u>Armand Beaudoin</u>	J1. Wijaya 1, No.71 Kebayoran, Baru, Jakarta, Indonesia 121170	
General Director	Barmash Joint Stock Company (Mongolia)	historical: 2 Sep '98 – 5 Jul '99

Armand Beaudoin replaced Ch. Khajidsuren in September 1998:

<u>Khajidsuren Choijiliin</u>	Apt 54, Block 17, Subdistrict V1, Chingelti District, Ulaanbaatar	
General Director	Barmash Joint Stock Company (Mongolia)	historical: 22 Aug'96 – 2 Sep'98

Ch. Khajidsuren replaced the first director:

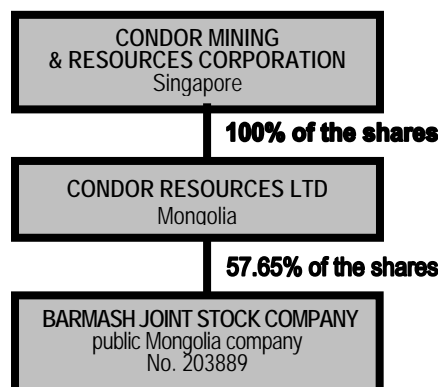
<u>Sh. Duugii</u>	Apt 27, Block 10, Subdistrict III, Sukhbaatar District, Ulaanbaatar	
General Director	Barmash Joint Stock Company (Mongolia)	historical: 30 Apr'96 – 20 Dec'96

### **Loan to Barmash JSC by Java Gold**

Java Gold Corporation and/or Mongolian Goldfields Corporation had made a loan, or loans, to Barmash JSC. The original size of the loan or loans is unclear. The intention was for the loan or loans to be repaid in lieu of rental and facilities: *“Mongolian Goldfields Corporation and Java Gold Corporation occupy office space and industrial space in Barmash’s office and industrial complex that is financed through the drawdown of an additional loan outstanding from Barmash, which amounted to 95,353 US\$ as at 31<sup>st</sup> December 1997.”* By 28<sup>th</sup> April 1998 the outstanding amount was 142,798 US\$. As at 31<sup>st</sup> September 1998 a further 81,349 US\$ had been drawdown from the Barmash Loan, suggesting a residual portion to then be only 14,004 US\$.

## Transfer of Control of Barmash JSC to Condor

Java Gold sold its 57.65% interest in Barmash JSC to Condor Resources Ltd. in which Armand Beaudoin held a controlling interest. The agreed sum was 234,779 US\$ of which 200,000 US\$ was paid by the end of 1997. The remainder was paid prior to Java Gold producing financial statements for the period ending 30<sup>th</sup> September 1998. The new ownership structure was:



The fate of the shares in Barmash JSC held by Condor Resources Ltd. is curious. They were transferred to a third party prior to the liquidation of Condor.

Records of the Mongolian Stock Exchange show that in the second half of 1999, sometime after Armand Beaudoin passed away, a bundle of 674,237 shares (58.02% of the total shares) had been sold as a single bundle and were now held by the single owner. It seems inevitable that this bundle of shares had been purchased from Condor Resources Ltd.

In spring 2000, Barmash JSC had 1,161,934 shares issued between 384 shareholders, but 1,114,018 shares (95.87% of the total shares) were held by a single owner. Of the shares held by the single owner, 439,781 were in a bundle owned "*from a long time ago*", and may be shares purchased by Armand Beaudoin. If so, then 95.87% belongs to the estate of Armand Beaudoin.

## Licenses Held by Condor Resources Ltd (Mongolia)

Information gathered by EMI from the Cadastral Office of the Minerals Resources Authority of Mongolia shows that Condor Resources Ltd. (Mongolia) held 6 Exploration Licenses, for hard-rock gold:

- |    |                                  |                                     |                           |
|----|----------------------------------|-------------------------------------|---------------------------|
| 1. | License X-759                    | Khentii & Sukhbaatar Aimags         |                           |
|    | awarded to Condor Resources Ltd. |                                     | current status: cancelled |
| 2. | License X-774                    | Khentii & Sukhbaatar Aimags         |                           |
|    | awarded to Condor Resources Ltd. |                                     | current status: cancelled |
| 3. | License X-775                    | Selenge Aimag                       |                           |
|    | awarded to Condor Resources Ltd. |                                     | current status: cancelled |
| 4. | License X-776                    | Selenge Aimag                       |                           |
|    | awarded to Condor Resources Ltd. |                                     | current status: cancelled |
| 5. | License X-796                    | Khentii, Dornod & Sukhbaatar Aimags |                           |
|    | awarded to Condor Resources Ltd. |                                     | current status: cancelled |
| 6. | License X-875                    | Selenge Aimag                       | 94,604 hectares           |
|    | awarded to Condor Resources Ltd. |                                     | current status: cancelled |

## **Golden Sundra Mining (Indonesia) – Links with Java Gold (Ontario)**

**Golden Sundra Mining Corporation** was claimed to be part of the ‘Golden Tiger Group’ in a three-page advertisement that appeared in Mongolia in 1998. But Golden Sundra was NOT a subsidiary of Java Gold Corporation, remaining a private company – albeit 50% owned by Armand Beaudoin. The same advertisement stated that Golden Sundra Mining Corporation was “*from Indonesia*” and that the company was based at “*the Minerals House of Mongolia*” – Barmash Building, Chinggis Khan Avenue, Ulaanbaatar 31, Mongolia. Other than this, there is no evidence that the company had a physical presence in Mongolia.

In May 1997 Golden Sundra Mining Corporation became a shareholder in Java Gold Corporation, when Java Gold paid 363,800 US\$ to Golden Sundra plus 100,000 common shares in Java Gold valued at 88,000 US\$, in connection with the option of Java Gold to acquire a 100% beneficial interest in the Kendeng project in West Java.

This was clearly a profitable transaction for Armand Beaudoin, as 50% owner of Golden Sundra Mining Corporation. However it was a serious drain on the liquidity of Java Gold and one of the causes of the company becoming illiquid and paralysed.

## **Monrud Co. Ltd. (Mongolia) – Links with Java Gold (Ontario)**

**Monrud Co. Ltd.** is a private Mongolian company based in Ulaanbaatar. Its headquarters used to be: Barmash Building, Chinggis Khan Avenue, Ulaanbaatar-36, Mongolia – the same address as Java Gold Corporation, but has now moved to other premises in Ulaanbaatar.

The President of Monrud Co. Ltd., Gurdorj Ankhbayar, served alongside Choliin Khajidsuren and Armand Beaudoin on the 7-strong Governing Council of TAS Corporation.

In 1997 the main customers of Monrud were Java Gold and International Pursuit as the following abstracts from an advertisement of Monrud illustrates: “*In 1997 Monrud worked as an operator in 10 license areas, holded (sic) by International Pursuit Corporation and Java Gold Corporation. Enormous achievements with exciting results of our company for 1997 were found several potential occurrences for gold in the areas Dashbalbar, Ulziit Gol, Khargas and Erdene Dalai.*” “*During the field season in 1997 were conducted geochemical and geophysical survey on 10 license areas, including a diamond drilling program at two of them.*” Dashbalbar was an Exploration License (X-058) held by Golden Tiger Corporation, 100% owned by Mongolian Goldfields Corporation and thus 100% held by Java Gold Corporation.

In late 1997 or early 1998, Monrud became the 100% holder of 5 hard-rock licenses (Ongon-1,-2,-3, -4 and Onon) which were stated to be properties of Java Gold Corporation on many occasions in official filings. For this to be valid, it is assumed a confidential agreement existed between Java Gold Corporation and Monrud whereby Java exerted 100% control. However there is a difficulty. Monrud Co. Ltd. today continues to hold 889X, together with 889X-1 and 889X-2, the 3 licenses being derived from parts of Java Gold’s large 998X Onon Exploration License.

Monrud has recently been marketing the Tsagaan prospect of the Ikh Bogd area. This was formerly held as Exploration License X-059 by Barmash JSC but controlled by Java Gold. Monrud explored this prospect on behalf of Java Gold and is now marketing this ex-Java Gold property without acknowledging Java Gold.

## Mongolian Business Development Agency - MBDA

The Mongolian Business Development Agency (MBDA) was established in 1994 as a non-governmental organisation (NGO) with the active support of the National Development Board and the United Nations Development Programme (UNDP) and from 1995 to present has received substantial technical assistance and grant aid, mainly from the EU Tacis Programme, in order to assist the growth of an SME-driven private sector in Mongolia.

The Tacis Programme is funded by the member states of the European Union via the European Commission to give technical assistance as grant aid to the newly-independent states, including Mongolia.

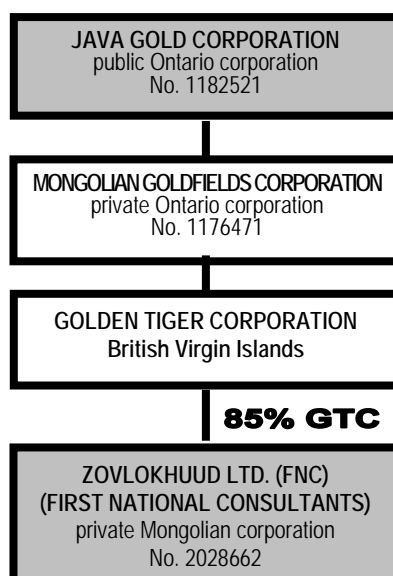
The MBDA encouraged the substantial investment by Golden Tiger Corporation (GTC), and the author, in his role as MBDA Chief Adviser drafted a binding agreement between GTC (signed by Armand Beaudoin) and the MBDA whereby the MBDA held 15% of the shares in a new company, Zovlokhud Ltd. (= First National Consultants FNC) to engage in exploration and consultancy.

Later it appears that GTC used its majority shareholding to freeze out the MBDA from the operations of FNC, and, in the writer's opinion, the MBDA has a claim against GTC (and thus against its 100% parent Mongolian Goldfields Corporation and in turn against its 100% parent Java Gold) for significant compensation.

### First National Consultants FNC (Mongolia)

**Zovlokhud Ltd. (= First National Consultants FNC)** was established as a Mongolian company on the initiative of Armand Beaudoin and the Mongolian Business Development Agency (MBDA) and registered on 22<sup>nd</sup> January 1996 (ref No.26/80), registration number 2028662, with a founding capital of 10,060,500 Tugrigs (about 20,000 US\$). At that time, the MBDA was playing a key role in technology transfer in gold mining.

Although registered as a Mongolian company, Zovlokhud Ltd. (FNC) is nevertheless 85% foreign-owned, by Golden Tiger Corporation (GTC), in turn 100% owned by Mongolian Goldfields Corporation. Thus after the takeover of Mongolian Goldfields Corporation, the 85% ownership of Zovlokhud Ltd. (FNC) passed to Java Gold Corporation.



## Directors & Officers of FNC

The current directors and officers of FNC has not been researched, but believed to be unchanged from the original directors and officers:

<u>U. Barbarikh</u>	Apt 49, Block 8, Subdistrict 8, Bayangol District, Ulaanbaatar, Mongolia	
Nominated by:	Mongolian Business Development Agency MBDA	
Director (national)	First National Consultants Ltd. (Mongolia)	current post, from 9 Jan '96
<u>Gerrit Roleof Bazuin</u>	Ulaanbaatar, Mongolia	
Nominated by:	Golden Tiger Corporation GTC	
Director (foreign)	First National Consultants Ltd. (Mongolia)	current post: 9 Jan '96 - '98
General Director	Ochir Leasing Co. Ltd. (joint venture)	current post
<u>Khajidsuren Choijiliin</u>	Apt 54, Block 17, Subdistrict V1, Chingelti District, Ulaanbaatar	
Nominated by:	Mongolian Business Development Agency MBDA	
Secretary & Treasurer	First National Consultants Ltd. (Mongolia)	current post, from 9 Jan '96
Director	Mongolian Goldfields Corporation (Ontario)	as from 19 Nov '96
Director	Zaamar Goldfields Ltd. (Mongolia)	as from 9 Jun '98
Governing Council Member	TAS Corporation (Mongolia)	current post, from ?1996
Director	Barmash Joint Stock Company (Mongolia)	historical

### Activities of First National Consultants (FNC)

On 9<sup>th</sup> April 1996, FNC entered into a Memorandum of Understanding with Gazar Holdings Corporation, whereby both parties would mutually cooperate in the application of high percentage gold recovery systems to the placer licenses held by Gazar Holdings. On 14<sup>th</sup> October 1996, FNC was awarded Mining License A-01 covering the Toson Alluvials at Zaamar. Control later passed to GTC and thus to Java Gold. In 1996/7, FNC was awarded hard rock gold Exploration License X-057 Salkhit, claimed to be controlled by Java Gold.

### Gazar Holdings (Mongolia) – Links with Java Gold (Ontario)

Gazar Holdings Co. Ltd. is a well-known, highly-diversified locally-owned and well-respected Mongolian holding company with significant placer gold mining operations, and in 1999 was high in the league table of 99 gold producers in Mongolia. Gazar Holdings Co. Ltd. was established in 1992 as a holding company. By 1996 had 12 daughter companies, of which **Gazar Toson Co. Ltd.** is the most relevant to Java Gold Corporation.

Via Gazar Toson Co. Ltd., Gazar Holdings was 100% holder of Mining License A-066 on the Toson Terrace in the Zaamar district of Tov Aimag of Mongolia, upon which Gazar Toson Co. Ltd. owned and operated the 'Toson Mine', a dry placer gold mining operation.

A description of the Toson Mine is given in a report of a fact-finding visit on 29/30<sup>th</sup> August 1995 funded by the EU Tacis Project SMEMON9401, written by Mrs. Ch. Khajidsuren who was holder of a Tacis-funded post at the MBDA and organised the fact-finding visit at the request of the author who was the MBDA Chief Adviser. "...the mine is 3 years old." "A placer gold deposit which has 1.8 tonnes of gold resources. Capacity of the mining is 50 kg of gold per month, but now they extract just 30-35 kg on average. The technological lost (sic) on average estimated by 4%. The volume of earth moving on average composing between 8 and 12 metres."

In the 4 years that Gazar Toson Co. Ltd. owned and operated the Toson Mine on the Toson Terrace, gold production was considerable, far higher than Java Gold ever achieved:

1993	10 kilos
1994	100 kilos
1995	180 kilos
1996	172.76 kilos

According to the 1997 Annual Information Form of Java Gold, Gazar Toson Ltd. was bought by Mongolian Goldfields Corporation, thus it is now a subsidiary of Java Gold.

## Portfolio of Hard Rock Gold Licenses

Armand Beaudoin used his network of controlled companies to amass a very large portfolio of hard rock gold exploration licenses in Mongolia, with the intention of being the largest license holder. Rules were in force to prevent any one company gaining a disproportionately large area of licenses, but Armand Beaudoin circumvented this by gathering licenses via a wide range of intermediary companies. At no time did Java Gold Corporation reveal in News Releases or filings the license numbers or exact locations.

### Hard Rock Gold Licenses via MGC

In early 1997 Mongolian Goldfields Corporation (MGC) was granted, under the old Minerals Law of Mongolia, 5 hard rock gold exploration licenses totalling approximately 2 million hectares. These exploration licenses were cancelled and reissued effective 1<sup>st</sup> July 1997, pursuant to the new Minerals Law of Mongolia. Four of the five have been identified by EMI:

LICENSE	LOCATION	LICENSE HOLDER	CONTROL by MGC
X-057	Salkhit	Zovlokhuud Ltd.	85%
X-058	Dashbalbar	Golden Tiger Ltd.	100%
X-059	Ikh Bogd	Barmash JSC	100%
X-062	Baruun Khurai (=West Gobi)	Mongolian Goldfields Ltd.	100%

#### a) Exploration License X-057 Salkhit East Mongolian Gold Belt

Awarded to: Zovlokhuud Ltd. (=First National Consultants FNC)  
 Area: 3,993 km<sup>2</sup> (stated as 3,995 km<sup>2</sup> in press release by Java Gold Corporation).  
 Location: Khentii Aimag: Latitude: 107 15 18 Longitude: 47 27 00  
 Current Status: cancelled

**Zovlokhuud Ltd.** (= First National Consultants Ltd. FNC) is a locally registered company controlled by Armand Beaudoin. It is assumed that an agreement existed between FNC and MGC (and thus indirectly with Java Gold Corporation) regarding this license.

The Salkhit license is shown on the map in the 1997 Annual Report of Java Gold, with the legend "*Java Gold Properties*". In fact it was an FNC property, albeit maybe controlled by Java Gold.

**Extracts from Java Gold Public Statements about X-057:** "*The Salkhit license area lies 100km southwest of the Dashbalbar license along the same structural trend.*" "*Salkhit is reported to have many similarities to the productive Balei gold deposit (4M oz Au) 200 km northeast in Russia. This low sulphidation epithermal is characterised by veins and stockworks hosted in early Cretaceous conglomerates in a northeast trending rift zone.*" "*The three main prospects areas are Tsaagan, Salkhit and Bayan Ovoo.*" "*Java Gold geologists are currently exploring these prospects as well as mineralised hardrock source areas adjacent to several active placer mines.*"

**X-057 Tsagaan Prospect:** "*Analogies have been made (Richard H. Sillitoe) between Tsaagan and the 10 million ounce Balei deposit, 200 km northeast in Russia.*" "*The Tsaagan prospect is characterised by a circular, altered and silicified granite complex overlain by conglomerates and siltstones occurring in a graben.*" "*Exposure is limited over the target area which is greater than 2km in diameter.*" "*Gold mineralisation (1-2g/t) has been reported in a silicified cap with stockwork type quartz and quartz-fluorite veins. The gold mineralisation is interpreted to be epithermal.*" "*At the Tsagaan target, an IP geophysical survey outlined an anomalous zone 200 to 500 metres wide and up to 1 kilometre long. Although soil and rock sampling results were disappointing, the geophysical results indicate a large sulphide-bearing silicified zone that requires further testing.*"

**X-057 Salkhit Prospect:** *“Geochemical soil sampling at the Salkhit prospect defined a large gold anomaly covering an area of 3 x 2 kilometres. Gold is associated with pyrite mineralisation in altered conglomerates and sandstone units intruded by granite/granodiorites.” “Average grade for 648 soil samples from this zone was 136 ppb gold with many spot highs of 1g/t gold. These alteration/silicified zones with disseminated gold/pyrite are thought to be the source of the gold in the large producing placer mines in the Salkhit area.”*

**b) Exploration License X-058 Dashbalbar Talbai East Mongolian Gold Belt**

Awarded to: Golden Tiger Ltd. on 4th December 1996  
 Area: 3,945 km<sup>2</sup> (stated as 3,995 km<sup>2</sup> in press release by Java Gold Corporation).  
 Location: Dornod Aimag. Latitude: 113 00 00 Longitude: 49 25 00  
 Current Status: part later transferred to Java Gold Corporation - cancelled  
 part later transferred to Barmash JSC – still valid

**Golden Tiger Ltd.** is 100% owned by Golden Tiger Corporation (BVI) which is 100% owned by Mongolian Goldfields Corporation (Ontario), in turn 100% owned by Java Gold Corporation (Ontario). Thus Java Gold held a 100% interest in the license. The Dashbalbar license is on the map showing the Mongolian Land Position in the 1997 Annual Report of Java Gold, with the legend *“Java Gold Properties”*. Later the license was divided into two:

X-058	Dashbalbar	Java Gold Ltd. (Mongolia)	29,136 hectares
X-058-1	Dashbalbar & Baidin	Golden Tiger Ltd. (Mongolia)	20,313 hectares

X-058-1 was cancelled sometime later, but X-058 had a complicated fate, as follows.

On 7<sup>th</sup> November 1999, an application was made by Java Gold Ltd. and Barmash JSC to the Cadastral Office of the Minerals Authority of Mongolia to have Exploration License X-058 transferred from Java Gold Ltd. to Barmash JSC, and the application was stamped and signed on behalf of Java Gold Ltd. by Harry Vassar, and stamped and signed on behalf of Barmash JSC by Ch. Khajidsuren. By the date of the transfer application, Armand Beaudoin had passed away and had been replaced by Harry Vassar as General Director of Barmash JSC (appointed on 2<sup>nd</sup> September 1999). The transfer from Java Gold Ltd. to Barmash JSC was made ‘free of charge’ but shareholders of Java Gold Corporation (100% owners of Java Gold Ltd.) were not consulted. It is unclear how the FREE transfer of X-058 was in the best interests of shareholders of Java Gold, as **X-058 was the most promising Exploration License held by Java Gold.** At no time was the transfer of the license to Barmash JSC publicly revealed to shareholders of Java Gold Corporation, or in any News Release.

The current situation is therefore:

X-058	Dashbalbar	Barmash JSC. (Mongolia)	29,136 hectares
X-058-1	Dashbalbar & Baidin	cancelled	20,313 hectares

**Extracts from Java Gold Public Statements about X-058:** *“Multiple cross-structures cut the uplift zone in this region associated with multiple phases of Jurassic intrusions.” “Significant gold mineralisation is related to replacement zones and quartz veins (Tsaagan Chuluut I), brecciated volcanics (Tsaagan Chuluut II) and epithermal zones (Grid III).” “The three main prospects within the Dashbalbar license are within a target area measuring 18x10km known as Tsaagan Chuluut district (White Rock district) straddling the southern boundary of the Dashbalbar uplift zone.” “Exploration in 1997 demonstrated that the Dashbalbar area has significant potential for low-grade, large tonnage gold deposits associated with structures adjacent to the margins of the numerous graben structures that occur in the license area.” “A total of 10 prospective targets were evaluated in 1997 to determine the potential for large-tonnage gold deposits.”*

**X-058 Tsagaan Chuluut I (White Stone I) Prospect:** *“The Tsaagan Chuluut area is considered by many Mongolian geologists to be the best gold target in North East Mongolia.” “The Tsaagan Chuluut gold prospect within the Dasbalbar license is characterised by a large area of limonitisation and silicification at the contact zone with a small diorite porphyry plug.” “The area lies adjacent to an active placer gold mine.” “Trenching during a Russian exploration program is reported to have uncovered wide zones of mineralisation over an area of 400m x 200m.” “A gold soil anomaly defined at Tsaagan Chuluut I measured 400x700m and averaging 250ppb gold (0.25g/t) is now being evaluated by mechanical trenching.” “A recent evaluation by Java geologists researching this area revealed additional potential up to 600m northeast along the contact zone.” “Exploration at the Tsaagan Chuluut I target outlined anomalous gold in a series of trenches, and a coincident 500 by 200 metre IP geophysical anomaly beneath an exposed alteration zone was tested by three angled diamond drill holes to depths of 173 metres. All holes intersected altered rocks containing pyrite. The best gold values returned were 0.47 g/t gold over 51.5 metres and 1.06 g/t gold over 47 metres in two separate holes.” “Rock chip, soil sampling and geological mapping has been completed over Tsagaan Chuluut I (22 km of line)...”*

**X-058 Tsagaan Chuluut II (White Stone II) Prospect:** *“A second target was located at Tsagaan Chuluut II, approximately three kilometres west of Tsagaan Chuluut I, where large trending east-west to southeast silicified and brecciated zones (700 by 300 metres) occur at the margin of a north-trending graben structure. These zones contain quartz/chalcedony veins, which exhibit textures consistent with an epithermal origin.” “Two trenches were excavated over geochemical and geophysical anomalies coincident with the silicified zone. Anomalous gold values were returned in both trenches, and a 61-metre wide zone averaged 0.90 g/t gold including 16 metres grading 2.27 g/t gold. Further work is required to outline the lateral extent of this zone.” “Rock chip, soil sampling and geological mapping has been completed over Tsagaan Chuluut II (40.8 km of line)...” “A diamond drill program commenced on 28<sup>th</sup> July (Ed: 1998) to test the depth extension of significant gold mineralisation intersected in several trenches over a strike length of 730m at the Tsaagan Chuluut Prospect in northeastern Mongolia.” “Three angle holes were collared, however only one 88.6m hole was completed to the planned depth.” “The first hole was terminated at 54.1m due to caving ground, before intersecting the target zone.” “The last hole was terminated at 24.3m due to mechanical problems with the drill which could not be repaired.” “Anomalous gold values were intersected in all holes, but due to the drilling problems encountered, the main zone remains essentially untested.” “A further drilling program is planned for the 1999 field season.”*

**X-058 Grid III Prospect:** *“Geochemical sampling at Grid III (60 km of line) is in progress.”*

**X-058 Platinum & Gold/Copper Prospects:** *“...targets outside the Tsaagan Chuluut district have been visited: a black shale platinum occurrence and the Erdene Tolgoi gold/copper skarn.”*

**X-058 Erdene Togoi Prospect:** *“Anomalous concentrations of gold (5.94 g/t over 8.8 metres) were returned from a trench at the Erdene Tolgoi skarn occurrence, and additional trenching is required to determine the lateral extent of this zone.”*

c)	<b>Exploration License X-059</b>	<b>Ikh Bogd</b>	<b>Gobi Zone</b>
	Awarded to:	Barmash Joint Stock Company on 4th December 1996	
	Area:	3,993 km <sup>2</sup> ( stated as 3,986 km <sup>2</sup> in press release by Java Gold Corporation).	
	Location:	Bayanhongor Aimag, south Mongolia (Gobi zone).	
		Latitude: 100 00 00	Longitude: 44 30 00
	Current Status:	cancelled	

**Barmash JSC** was independent of Java Gold, but Java Gold had its offices in the Barmash Building and MGC/Java/Condor loaned money to Barmash. At the time of the license award, Mongolian Goldfields held a controlling block of shares in Barmash JSC. It is assumed that by agreement this license was 100% controlled by Mongolian Goldfields Corporation.

The Ikh Bogd license is shown on the Mongolian Land Position in the 1997 Annual Report of Java Gold as *“Java Gold Properties”*. But it was a Barmash JSC property, albeit maybe indirectly controlled by Java Gold. Later the license was cancelled.

**Extracts from Java Gold Public Statements about X-059:** *“The Ikh Bogd license is located in south central Mongolia and lies on the boundary of the east-west trending Mongolian Main Lineament, which bisects the country.” “Mineralisation at Ikh Bogd, associated with disseminated sulphides and quartz stockworks in sandstone and skarn zones replacing limestones and mafic volcanic units, has been reported by previous workers.” “Extensive areas of alteration have been identified from Landsat imagery and during aerial prospecting of the Ikh Bogd property.” “The area is underlain by Mesozoic volcanics intruded by felsic stocks.”*

**X-059 Gold Occurrences:** *“Several gold occurrences associated with stockwork veining have been documented in this area of historic alluvial gold mining zones.”*

**X-059 Bayangobi Target:** *“The 1997 exploration program was successful in discovering significant gold mineralisation associated with pyrite within silicified and altered quartz stock-work zones at the Bayangobi target. Four of 13 rock chip sample lines returned gold values of up to 3.6 g/t over a width of 11 metres.”*

**d) Exploration License X-062 Baruun Khuurai Gobi Zone**

Awarded to: Mongolian Goldfields Ltd. (Mongolia)  
 Area: 3,170 km<sup>2</sup> (stated as 3,140 km<sup>2</sup> in the 1997 Annual Information Form of Java Gold).  
 Location: Altai, Bulgan and Yench areas of Khovd Aimag, west Mongolia (Gobi zone).  
 Latitude: 90 47 00 Longitude: 45 20 00  
 Current Status: cancelled

**Mongolian Goldfields Ltd. (Mongolia)** is 100% owned by Mongolian Goldfields Corporation (Ontario) and thus 100% owned by Java Gold. Therefore license was indirectly 100% controlled by Java Gold. This license is shown as *“Java Gold Properties”* on the map of Mongolian Land Position in the 1997 Annual Report of Java Gold. Later this license was cancelled.

**Extracts from Java Gold Public Statements about X-062:** *“The Baruun Khuurai area is underlain by oceanic sedimentary and volcanics rocks of Carboniferous age.” “Mineralisation in the area occurs as massive sulphides hosted in ophiolites and gold/antimony in quartz stockworks.” “The exploration target in West Gobi is a gold-antimony quartz stockwork zone, in a Palaeozoic volcanic arc setting.” “Only limited reconnaissance was completed in this license area in 1997. The Dan jingiin Khuren in the northern part of the license area is considered to have the highest potential, as this area is underlain by rocks that host significant gold mineralisation along strike within the Trans Altai National Park. Reference samples taken in the Park returned anomalous gold values, and one sample contained visible gold. Further exploration is warranted in this license area, however, the remoteness of the area, lack of infrastructure, and difficulty in acquiring water and other supplies will make exploration a challenge.”*

**e) Exploration License X-067 Ikh Shanki Gobi Zone**

Awarded to: ? BHP Minerals Ltd. (Mongolia), 100% subsidiary of BHP (Australia)  
 Area: 44,809 hectares  
 Location: South Gobi Aimag.  
 Current Status: active

The *“Ikh Shanki”* Exploration License was claimed to be an asset of Mongolian Goldfields Corporation (and thus Java Gold after the takeover) but this claim appears to be false or at best complicated. X-067 was awarded to BHP Ltd. (Mongolia), a 100% subsidiary of the Australian major mineral company BHP. The license has not been cancelled; its status is active. The Ikh Shanki area is extensive. EMI has considered the possibility that Java Gold held a different Exploration License, but all 3 candidates are highly unlikely, so the mystery remains:

- |    |                |   |           |
|----|----------------|---|-----------|
| 1. | License X-840  | awarded to Dolgoty Ltd. (Mongolia)                        | cancelled |
|    |                | (100% controlled by Aubrey Cox, an Australian prospector) |           |
| 2. | License X-1900 | awarded to Mine Info Ltd. (Mongolia)                      | active    |
| 3. | License X-1901 | awarded to Mine Info Ltd. (Mongolia)                      | active    |

f) **Gurvantes Exploration License**

A “*Gurvantes*” Exploration License is stated as belonging to Mongolian Goldfields Corporation (MGC) in the News Release by Java Gold regarding the proposal to take over MGC. No further information has been found by EMI. The status of the Exploration License remains unclear.

**Extracts from Java Gold Public Statements about Gurvantes:** “*The Guvantes property is underlain by a volcanic assemblage with island arc characteristics.*” “*Extensive alteration zones, some with epithermal gold system pathfinder anomalies are present. Anomalous gold is reported in association with extensive areas of jasperoidal rhyolite and porous tuff.*”

### Hard Rock Gold Licenses controlled via Zaamar Goldfields Ltd.

Investigation of cadastral archives by EMI, produced a surprise that, at approximately the same time that the subsidiaries of MGC were granted 5 hard rock gold exploration licenses, a single large exploration license was awarded to Zaamar Goldfields Ltd:

a)	<b>Exploration License X-061</b>	<b>Tsakhir Khudag</b>	<b>Gobi Zone</b>
	Awarded to:	Zaamar Goldfields Ltd. (Mongolia) on 8 <sup>th</sup> August 1997.	
	Area:	3,831.5 km <sup>2</sup>	
	Location:	Altai Aimag.	
		Latitude: 96 00 00	Longitude: 45 10 00
	Current Status:	active, transferred to Capital Resources (Mongolia) Ltd.	

**Zaamar Goldfields Ltd.** (Mongolia) is 100% owned by Zaamar Goldfields Ltd. (BVI) and is thus 100% owned by Java Gold Corporation (Ontario). However, this property is **NOT** mentioned in the 1997 Annual Report of Java Gold, nor shown on the map in the Annual Report which shows their Mongolian land holdings. This suggests that at the time of preparing the 1997 Annual Report, License X-061 license had already been surrendered (improbable as the license fees had been paid for a year) or that the ownership of the license was held by private agreement with another company, and Zaamar Goldfields Corporation (Ontario) seems possible. This company has no legal connection with Java Gold Corporation (Ontario). Later the license was transferred to **Capital Resources Mongolia Co. Ltd.** based in Ulaanbaatar, according to the official Cadaster checked by EMI.

### Hard-rock Gold License held directly by Java Gold

Only one hard-rock Exploration License was ever held by Java Gold Corporation via its local 100% subsidiary Java Gold Ltd. – X-056. This was secured at about the same time that Mongolian Goldfields Corporation acquired its 5 Exploration Licenses.

a)	<b>Exploration License X-056</b>	<b>Zavkhan Mandal Talbai</b>
	Awarded to:	Java Gold Ltd. (Mongolia), 100% subsidiary of Java Gold Corporation (Ontario)
	Area:	3,721.7 km <sup>2</sup> (stated as 3,772km <sup>2</sup> according to media release of Java Gold Corporation).
	Location:	Uliastai Aimag, western Mongolia
		Latitude: 94 30 00                      Longitude: 48 00 00
	Current Status:	active, transferred to Uurkhai Ltd. (Mongolia)

This license was awarded first to **Java Gold Ltd.** and later transferred to **Uurkhai Ltd.** according to the current official Cadaster inspected by EMI. The timing and basis for the transfer was not revealed by Java Gold Corporation to its shareholders nor in any News Release.

The Zavkhan Mandal license was clearly and correctly shown on the map of the Mongolian Land Position in the 1997 Annual Report of Java Gold, with the legend “*Java Gold Properties*”.

**Extracts from Java Gold Public Statements about X-056:** *“This property in the Urgaml belt of northwestern Mongolia contains multiple occurrences of gold and gold/copper.”* *“Hydrothermal gold mineralisation zones hosted by volcanogenic/sedimentary sequences and vein/stockwork gold occurrences hosted in volcanogenic/sedimentary sequences and vein/stockwork gold occurrences hosted in mafic volcanics are reported on the Zavkhan Mandal property.”* *“Metamorphogenic gold occurrences are also reported on the property which is of importance in relationship to other deposits of this type further west in the Altai, such as the Murantau deposit, which is one of the world’s largest open-pit gold mines.”*

**X-056 Gold Prospects:** *“Four gold occurrences are documented on the Zavkhan Mandal property.”* *“Soil, rock chip sampling and geologic mapping are underway on four prospects on the Zavkhan Mandal license (Zuun Shuvuu uul, Shuvuun Kar uul, Zavkhan Mandal and Berkheer Khar uul).”* *“Five areas covered by this license were evaluated in detail during 1997, and an additional 25 were investigated in the field.”* *“Gold-bearing quartz vein mineralisation is widespread in the western portion of the license area, but veins tend to be small and isolated. This area is considered to have limited potential for large tonnage gold deposits.”*

**X-056 Shuuvan Kgar uul Prospect:** *“...trench K-170 exposes intensely folded green schists cut by a quartz vein (approximately 50cm to 1m wide) and a shear zone (2m wide). The trench is situated on the flank of an anticlinal hinge and the vein and mineralised zones are believed to be occupying favourable structures associated with the fold.”* *“Trench K-170 returned 5.39 g/t gold over 9.0 metres.”* *“Additional trenching is underway 60m south and 200m north along the trend of the veins.”* *“In addition a 1 sq.km area of detailed geochem sampling is being conducted over this zone.”*

**X-056 Erdene Khairkhan Prospect:** *“One promising rock chip geochemical anomaly (up to 1.5 g/t gold) coincident with a magnetic high was located in a skarn at Erdene Khairkhan.”*

## Hard-rock Gold Licenses via Monrud Ltd.

According to public reports released by Java Gold Corporation, the company acquired: *“five new license areas late in 1997”* *“...Java acquired five new licenses (Ongon 1-4 and Onon) late in 1997...”* This was not correct. Java Gold did NOT receive any more exploration licenses at all, even though Ongon 1-4 and Onon were clearly shown on the map showing the Mongolian Land Position in the 1997 Annual Report of Java Gold, with the legend *“Java Gold Properties”*.

Investigation shows the 5 exploration licenses were instead issued to a local company, Monrud Ltd. On the same day that Monrud was awarded the four Ongon 1-4 Exploration Licenses, it was awarded a large exploration license (863X) immediately adjacent to Ongon 1-4 covering 183,919 hectares of Sukhbaatar Aimag.

The fact that Monrud Ltd., not Java Gold, held the 5 exploration licenses was never revealed to shareholders of Java Gold, nor the existence and nature of the relationship between Java Gold and Monrud Ltd. Monrud was for a long time based in Barmash Building, which also housed the offices of Java Gold Corporation (Ontario, CDN) and associated companies.

- a) Exploration License 860-X                      Ongon 1**  
 Awarded to:            Monrud Ltd. (Mongolia)  
 Location:                Bayandelger district of Sukhbaatar Aimag & Dornogobi Aimag, east Mongolia (Gobi zone)  
 Current Status:        cancelled.
- b) Exploration License 861-X                      Ongon 2**  
 Awarded to:            Monrud Ltd. (Mongolia)  
 Area:                      72,128 hectares  
 Location:                Bayandelger district of Sukhbaatar Aimag, east Mongolia (Gobi zone)  
 Current Status:        cancelled.

- c) **Exploration License 864-X** **Ongon 3**  
 Awarded to: Monrud Ltd. (Mongolia)  
 Area: 27,048 hectares  
 Location: Ongon district of Sukhbaatar Aimag and Dornogobi Aimag, east Mongolia (Gobi zone)  
 Current Status: cancelled.
- d) **Exploration License 862-X** **Ongon 4**  
 Awarded to: Monrud Ltd. (Mongolia)  
 Area: 27,048 hectares  
 Location: Ongon & Bayandelger districts of Sukhbaatar Aimag & Dornogobi Aimag, E.Mongolia (Gobi zone)  
 Current Status: cancelled.
- e) **Exploration License 889-X** **Onon**  
 Awarded to: Monrud Ltd. (Mongolia)  
 Area: 183,819 hectares  
 Location: Onon and Binder Soum, Khentii Aimag, east-central Mongolia  
 Current Status: although the bulk of license area has been relinquished, 3 promising areas have been retained by Monrud Ltd. and kept as 3 separate licenses areas in the name of Monrud Ltd.:
- |        |             |                |
|--------|-------------|----------------|
| 889X   | Monrud Ltd. | 1,780 hectares |
| 889X-1 | Monrud Ltd. | 610 hectares   |
| 889X-2 | Monrud Ltd. | 2,158 hectares |

### Placer Gold Licenses controlled by Java Gold

Java Gold Corporation, by the take-over of Mongolian Gold Corporation (MGC) had interests in 3 Mining Licenses for placer gold:

LICENSE	TYPE	LOCATION	TARGET	LICENSE HOLDER	CONTROL by MGC	JVAG INTEREST
A-001	Mining	Toson Alluvials	Placer Gold	Zovlokhud Ltd.	85%	85% then 100%
A-002	Mining	Ulunt Tsamkhag	Placer Gold	TAS Corporation	80%	40%
A-066	Mining	Toson Terrace	Placer Gold	Gazar Toson Ltd.	100%	100%

Subsequent changes are as follows:

LICENSE	RENUMBERED	TYPE	LOCATION	TARGET	CURRENT HOLDER	JVAG INTEREST
A-001	A-321	Mining	Toson Alluvials	Placer Gold	Monpolymet Ltd.	40%
A-002	A-225 & 388A	Mining	Ulunt Tsamkhag	Placer Gold	TAS Corp. (A-388A) Argos Ltd. (A-225)	TAS Loan (3m US\$)
A-066	A-184	Mining	Toson Terrace	Placer Gold	Monpolymet Ltd.	10%

### Mining License A-066 Toson Terrace = A-184

This license was the site of all gold mining by Java Gold (Ontario) and its subsidiaries. Mining License A-066 covers an area of 455.4 hectares on the east side of the valley of the Tuul river, in an area known as Toson in Zaamar district of Tov Aimag (= central region) of Mongolia. The license area is a dry elevated terrace and holds proven reserves of approximately 2.2 tons of placer gold at an average grade of 0.233 grams/m<sup>3</sup>, with a very favourable overburden ratio of 1:1 or better, all amenable to dry open pit mining. The gold is clearly derived from the swarms of gold-bearing quartz veins in the hard rocks to the east in the Zaamar. Part of this system of gold-bearing quartz veins include the Bumbat Hard-Rock Gold Mine which is owned by a Mongolian-Canadian 51%:49% joint venture between Mongolian Gold Resources (=Tyhee Resources, a Canadian company trading as TDC on the Vancouver Stock Exchange) and a private local mining company Mongolalтын Gold Corporation ("MAK"). However the Bumbat Hard-Rock Gold Mine has been suspended for several years pending the settlement of a dispute between the partners.

**Toson Terrace in 1992:** The Mining License was first awarded to Gazar Toson Co. Ltd., a subsidiary 100% owned by Gazar Holdings Co. Ltd., a private Mongolian holding company. The license award appears to have been in 1992.

**Toson Terrace in 1993-1996:** Mining began in 1993, as a placer mine owned and operated by Gazar Toson Co. Ltd. The mine was successful for four consecutive seasons, until the end of the 1996 season. At least 460 kilos were produced from the mine in the first 4 years.

**Toson Terrace in first half of 1996:** Mining on A-066 continued in 1996. Some difficulties were experienced by Gazar Toson Co. Ltd. in attaining production forecasts due to frequent breakdown of new Russian earth-moving equipment, and a shortage of spare parts. The 100% parent company, Gazar Holdings Co. Ltd., became increasingly aware – along with many other local companies – of the 40-60% losses of gold in the traditional sluice-box method of mining. At this time, the EU Tacis Programme (SMEMON9401) based at the Mongolian Business Development Agency (MBDA) helped considerably to raise awareness of the gold losses by means of Seminars, Workshops and by demonstration tests at active placer mining sites.

### **Gold Test on the Toson Terrace in 1996**

**Toson Terrace in second half of 1996:** Discussions between Gazar Holdings Co. Ltd. (Mongolia) and Golden Tiger Corporation (GTC) led in the second half of 1996 to large-scale testing of the A-066 Mining License using a Pilot Plant with high percentage gold recovery systems consisting of a trailer-mounted Knelson Concentrator and Trommel, brought into Mongolia in late May 1996 by GTC. After some modifications at Barmash JSC, the Pilot Plant arrived at Zaamar in July 1996. Bulk sampling of the Toson Terrace deposits using the Pilot Plant was conducted between 6<sup>th</sup> August 1996 and 25<sup>th</sup> September 1996 under the supervision of Gary Beaudoin, and undertaken to an exceptionally high standard, as described by G. Beaudoin (2000).

The results were very encouraging. As a direct result, Mongolian Goldfields Corporation (MGC) gained 100% control of License A-066 for a 1,000,000 US\$ payment but only 200,000 US\$ was paid by MGC prior to its takeover by Java Gold. The outstanding 800,000 US\$ was paid by Java Gold Corporation after the take-over. It appears, from the ownership chart in the 1997 Annual Information Form of Java Gold, that MGC became 100% owner of Gazar Toson Co. Ltd. who retained title to Mining License A-066. Following the takeover of MGC, then Java Gold Corporation became the indirect 100% holder of the license, still via the original license holders – Gazar Toson Co. Ltd.

### **Krupps Bucket-wheel Excavator Proposal for Toson Terrace**

**Toson Terrace at end 1996:** From September to November, Golden Tiger Corporation (GTC) researched the potential for large-scale dry-pit placer mining on the Toson Terrace using a Krupp Mobile Bucket Excavator with an integrated gold processing plant on board.

On 4<sup>th</sup> December 1996, Gary Beaudoin and John Herbert with the power of attorney arrived in Germany to sign on behalf of Java Gold Corporation a 15m U\$ contract with Krupps. The financing had been arranged but on 8<sup>th</sup> December the financing deal fell through. Therefore Java Gold's plan for financing large-scale mining on the Toson Terrace collapsed, and the company had to resort to crisis improvisation to be a position to mine in 1997.

### **First Mining Season on Toson Terrace by Java Gold**

**Toson Terrace in 1997:** During the 1997 mining season, Mining License A-066 was the site of the operating gold mine of Java Gold Corporation, as described by Grayson (2000).

At the end of the season, Mining License A-066 was transferred to Zaamar Goldfields Ltd. from Gazar Toson Co. Ltd., and duly registered and notified to the Cadastral office on 25<sup>th</sup> November 1997: "*License holders may transfer parts of the licensed area to persons eligible to*

*hold a particular type of license by a transfer agreement. The shape, size and orientation of the transferred and retained parts shall conform to the requirements of this law. The transfer of a part of the licensed area shall be recorded with the Office of the Geological and Mining Cadaster in accordance with the provisions of Article 40 and the provisions of this Article. The transfer agreement shall become effective upon such a registration.”* **Minerals Law of Mongolia - Article 41, Section 1:**

### **Resource Re-Evaluation of Toson Terrace**

On 16<sup>th</sup> September 1997, Java Gold announced an INCREASE of 45,000 ounces in indicated reserves in the Toson Terrace License A-066: *“Recent resource evaluation programs, however, have increased the indicated reserves of the Gazar Toson property, held 100% by Java Gold Corporation, to approximately 250,000 ounces. Production costs are expected to be approximately US\$125 per ounce.”*

However, at year end, Armand Beaudoin – ignoring the September announcement of an increase – presented the results of independent re-evaluation by Watts Griffis and McOuat (WGM) which demonstrated a major DECREASE in gold reserves/resources: *“WGM estimates that there are 71,000 ounces of gold in 8.0 million cubic metres of material grading 0.276 grams of gold per cubic metre under a 6.1 million cubic metre overburden in the Gazar Toson License.”* Remarkably, this News Release made no reference to the WGM findings being a major decrease, down from 215,000 ounces claimed by William Burton, President of Java Gold, on 28<sup>th</sup> April, and even more sharply down from the upward revision to 250,000 ounces claimed as recently as 16<sup>th</sup> September! A drop to 71,000 ounces required explanation, but none was forthcoming. This News Release was highly confusing – BAD NEWS presented as GOOD NEWS. The News Release was a breach of Section 122 of the Securities Act of Ontario and Section 250 of the Canada Business Corporations Act.

A little later, the statement of Armand Beaudoin was repeated, almost verbatim, again without amplification, in the 1997 Annual Information Form of Java Gold, issued on 30<sup>th</sup> June 1998: *“In addition, WGM estimates that there are 71,000 ounces of gold in 8.0 million cubic metres of material grading 276 milligrams of gold per cubic metre in the Terrace license area. Recovery of the Terrace deposit gold would require removal of an estimated 6.1 million cubic metres of overburden to access the gold-bearing horizons.”*

On the upside, although this is a huge cut in the size of the indicated reserves, the Toson Terrace still holds an estimated 2.2 tons of placer gold, and the overburden ratio is good.

On the downside, the average gold grade is revealed by the WGM report as being only 0.276 grams/m<sup>3</sup>. Again this draws attention to rather the obscure nature of some earlier News Releases. Until the publication of year-end results, the average gold grade of the Toson Terrace placer had never been previously mentioned. In particular, in the writer’s opinion, the News Release of Stephen Dattels and William Burton issued on 28<sup>th</sup> February 1997 should have mentioned the grade and the cut-off, as these facts influenced not only the share price of Java Gold, but also the transparency of the cash purchase by Java Gold of the assets and debts of MGC. This purchase was, of course, subject to independent rigorous valuation, but the Java Gold shareholders should also have been given fuller information.

A later News Release on 9<sup>th</sup> June, again by Stephen Dattels and William Burton on behalf of Java Gold should also have mentioned the grade and the cut-off, but dwelt only on a *“recoverable grade of 1gm/m<sup>3</sup>”*. While it is prudent and customary for new placer mines to start off by high-grading, it is also necessary to inform shareholders the level of the AVERAGE grade and the cut-off value in order to understand the viability or otherwise of the official claims about the size of the indicated reserves. This basic essential information was not provided by Stephen Dattels or William Burton during their tenure, only later once Armand Beaudoin had become Chairman.

### **Second Mining Season on Toson Terrace by Java Gold**

**Toson Terrace in 1998:** For a second mining season, Mining License A-066 was the site of the operating gold mine of Java Gold Corporation, as described by Grayson (2000).

In 1998, the license system was revised, and Mining License A-066 renamed as A-184.

### **Third Mining Season on Toson Terrace by Java Gold**

**Toson Terrace in 1999:** On 2<sup>nd</sup> July 1999, Zaamar Goldfields Ltd. (Mongolia), in a contract with Monpolymet Ltd., presented itself as owner of Mining License A-066 (=A184) and, according to the contract, ownership of Mining License A-066 was transferred to Monpolymet Ltd. with immediate effect. In the second half of 1999, Zaamar Goldfields Ltd. (Mongolia) operated a gold mine on A-066, as described by Grayson (2000).

On 9<sup>th</sup> September 1999, the transfer of Mining License A-066 to Monpolymet Ltd. was duly recorded in the Geological Cadaster of the Minerals Resources Authority.

### **Current Situation on Toson Terrace**

**Toson Terrace in 2000:** License A-184 (= A-066) is currently held by Monpolymet Ltd., but Zaamar Goldfields Ltd. (Mongolia) holds a valuable 10% interest in net income from mining in the license area.

An anomaly is that the official List of Mineral Licenses issued by the Cadastral Office in 2000, still states that Gazar Toson Ltd. is the license holder of Mining License A-184 (=A-066), a statement that requires correcting.

### **Mining License A-01 Toson Alluvials = A-321**

Mining License A-01 covers 1,158 hectares on the valley floor of the Tuul River, at Toson near Zaamar. Straddling the Tuul River, the license area straddles the boundary of Tov Aimag (= central region) and Bulgan Aimag. The area consists of floodplains on both sides of the Tuul river, together with the river itself, a location amenable to wet placer mining using a large dredge. The gold is again clearly derived from the swarms of gold-bearing quartz veins in the hard rocks to the east in the Zaamar district, including the vicinity of the Bumbat Gold Mine, belonging to Tyhee Resources (TDC on Vancouver Stock Exchange) and Mongolyiin Alt Corporation.

The placer deposits have not been mined but the gold resource is substantial, as indicated by a press release by Java Gold: *“The license area holds proven reserves of approximately 17 tons of placer gold at an average grade of 0.233 grams/m<sup>3</sup>, with a favourable overburden ratio, all amenable to wet dredge mining. Several companies already have major operational dredges elsewhere in the Zaamar valley in essentially similar deposits.”*

**Toson Alluvials in 1996:** On 14<sup>th</sup> October 1996, by Resolution A/44 of the Minister of Agriculture & Industry L. Nyamsambuu, Mining License A-01 was issued for the first time to Zuvlukhuud Ltd, also known as First National Consultants Ltd. (FNC), for an initial period of 18 years. Mining License A-01 was re-registered to Zuvlukhuud Ltd. on 30<sup>th</sup> September 1997 and renumbered as Mining License A-321. At time of original award, Mining License A-01 covered 1,226 hectares.

Sometime in 1996, effective control – but NOT legal ownership – of Mining License A-01 was transferred from FNC to Golden Tiger Corporation, a subsidiary of MGC. For the time being, FNC remained as the official holders of the license.

The 1997 Annual Information Form and Annual Report of Java Gold shows that the *“Toson Alluvial tender license”* had a book value on the assets of Mongolian Goldfields Corporation (MGC) of 570,672 US\$, a figure accepted by independent valuers at the time of the

take-over of MGC by Java Gold in April 1997. If calculated in the same manner as for the book value of 1,000,000 US\$ for the adjacent Mining License A-066, then it would follow that 570,672 US\$ was paid by Golden Tiger Corporation (100% subsidiary of Mongolian Goldfields Corporation) to Zuvlukhuud Ltd. (=First National Consultants FNC) as payment for transfer of Mining License A-01. However, Zuvlukhuud Ltd. is a company 85% owned by GTC and 15% by the Mongolian Business Development Agency (MBDA). It appears that the MBDA is due 15% of the 570,672 US\$, because the entire sum appears to have been paid to GTC by Armand Beaudoin.

**Toson Alluvials in 1997:** Golden Tiger Corporation (GTC) retained 100% control of Mining License A-01, thus MGC held indirect 100% control of A-01. At the time of the takeover of MGC in April 1997 by Java Gold, the payment of 570,672 US\$ had already been made in full for Mining License A-01. The ownership chart in the 1997 Annual Information Form of Java Gold shows MGC was 100% owner of GTC, the indirect 100% holder of License A-01. In turn, following the takeover of MGC in April 1997, then Java Gold became the indirect 100% holder of the license.

Investigation by EMI shows that in spite of all these changes of indirect ownership, at no time was GTC, MGC or Java Gold ever the official owners of Mining License A-01. Legal ownership remained with the original license holders Zovlokhuud Ltd. (FNC), a fact not revealed to shareholders of Java Gold.

On 8<sup>th</sup> November 1997, Mining License A-321 (formerly A-01) was transferred from FNC to Zaamar Goldfields Ltd. (Mongolia) and registered and notified on 8<sup>th</sup> November 1997 with the Cadastral Office on Certificate of Transfer 26/80.

Astonishingly, the official 1997 Annual Information Form of Java Gold failed to refer to this transfer, and so the chart of ownership in the document is fundamentally wrong in material facts and seriously misleading. The chart, while including Zaamar Goldfields Ltd. (BVI), failed to show Zaamar Goldfields Ltd. (Mongolia) **at all**, and fails to show that the former was 100% owner of the latter. Furthermore the chart shows GTC having DIRECT 100% control of Mining License A-01, which was **completely untrue** at the end of 1997: Possibly it was thought advisable not to confuse shareholders with this type of information.

During 1997, Java Gold undertook a resource revaluation of Mining License A-321 (formerly numbered as A-01), as preparation for a large gold dredging proposal. This is dealt with at the end of this section.

**Toson Alluvials in 1998:** In 1998, Java Gold Corporation continued evaluation of the large gold dredging proposal for Mining License A-321 (formerly A-01) (see later).

A lingering boundary dispute was dealt with in 1998. From 15<sup>th</sup> –17<sup>th</sup> August, a tripartite meeting between three companies who held adjacent, but unfortunately overlapping, mining licenses – Zaamar Goldfields Ltd. (Mongolia), Mongolyn Alt Ltd. MAC (Mongolia) and Haailast Ltd. (Mongolia) led to boundaries being redrawn and Mining License A-321 was reduced from the original 1,226 hectares to the current 1,158 hectares.

**Toson Alluvials in 1999:** On 2<sup>nd</sup> July 1999, Zaamar Goldfields Ltd. (Mongolia), in a contract with Monpolymet Ltd., presented itself as owner of Mining License A-01 and ownership of Mining License A-01 was transferred to Monpolymet Ltd. with immediate effect. On 1<sup>st</sup> October 1999, the transfer of Mining License A-321 to Monpolymet Ltd. (Mongolia) was officially recorded in the Cadastral Office of the Minerals Resources Authority.

**Toson Alluvials in 2000:** License A-321 is currently held by Monpolymet Ltd., but Zaamar Goldfields Ltd. holds a valuable 40% interest in net income from mining in the license area, according to the Zaamar-Monpolymet Contract.

An anomaly is that the Official List of Mineral Licenses issued by the Cadastral Office on 1<sup>st</sup> July 2000 still states that Zaamar Goldfields Ltd. is the license holder of Mining License A-321 (=A-01). Clearly this is no longer the case and requires updating.

## Resource Re-Evaluation of Toson Alluvials

During 1997, Java Gold made announcements regarding the status of the placer gold reserves/resources it controlled in the Zaamar Valley.

A drilling programme was announced by Stephen Dattels and William Burton on behalf of Java Gold on 9<sup>th</sup> June 1997 for the Toson Alluvial License A-01: *“Java Gold will also carry out a drilling program to increase the confidence level of the drill indicated resource of the Company’s Toson Valley alluvial license. The Toson gold resource represents an alluvial deposit in the Tuul River, with a drill indicated resource of 487,000 ounces of gold at a grade of 0.48 gm/m<sup>3</sup> as determined by previous Mongolian geological work. There are several profitable dredges currently operating in the Tuul River with similar reserves and grades.”*

At year-end 1997, Armand Beaudoin on behalf of Java Gold announced that the re-evaluation of the reserves and resources at Zaamar had been completed: *“At the end of the production season, the independent geological consulting firm of Watts Griffis and McOuat (“WGM”) prepared a resource evaluation report on the Gazar Toson and Toson Alluvial Licenses.”*

WGM have offices on the same street in Toronto as Java Gold, making communication very simple. WGM have a substantial track record in the evaluation of resources and reserves of deposits, and are frequently engaged internationally by Toronto-based mineral companies. The WGM website ([www.wgm.on.ca](http://www.wgm.on.ca)) mentions this project in its list of projects: *“Review of the Tuul River Gold Deposit, Mongolia.”*

In 1988/90 much previous drilling had already been done on the Toson Alluvials: *“In 1988/1989 a drilling program sponsored by the Mongolian government was carried out on a 800 x 40 metre grid. A total of 542 holes were drilled on 16 lines.”*

Following this earlier work, Java Gold undertook major exploration of A-01: *“In 1997, the Corporation completed the a fill-in-drilling program. A total of 352 holes were drilled on 16 lines spaced at 250 to 300 metres. Individual holes were at 80-metre centres. Two hammer-and-bailer style drilling rigs with 245 millimetre casing were used in this program. Drilling was completed in September 1997, and results were compiled to estimate the in-situ gold reserves.”* Thus a total of 894 holes were drilled in the A-01 area – 542 in 1998/89 and a further 352 in 1997.

The reassessment was made by WGM and presented by Armand Beaudoin on behalf of Java Gold as follows: *“... WGM estimates that there are 552,000 ounces of gold in 74.0 million cubic metres of material grading 0.233 grams of gold per cubic metre covering the river flood plain in the Toson Alluvial license.”*

The new figure of 552,000 ounces by WGM is a significant INCREASE on the 405,132 ounces claimed by William Burton on behalf of Java Gold on 28<sup>th</sup> April 1997, and a significant INCREASE on the 487,000 ounces claimed by Stephen Dattels and William Burton on 9<sup>th</sup> June 1997.

No mention was made in any News Release why the gold resource estimate rose from 405,132 ounces to 487,000 ounces, nor any mention made of cut-off grade or average grade. To shareholders such estimates were liable to confuse by failure to reveal known facts. The News Release by Armand Beaudoin was the first time an average grade of 0.233 grams had been stated, and how it had been slashed from 0.480 was not explained: *“The Toson gold resource represents an alluvial deposit in the Tuul River, with a drill indicated resource of 487,000 ounces of gold at a grade of 0.48 gm/m<sup>3</sup> as determined by previous Mongolian geological work.”*

Correspondence between WGM and Java Gold examined by the writer provides a clear explanation and illustrates incompetence or deception by the Java Gold management: *“Previous estimates accumulated only the volume of gold-bearing material with no consideration of the depth of burial.”*

## **Resource Re-Evaluation – Withholding & Distorting Facts**

From the foregoing account, it is reasonable to infer from the News Releases by Java Gold that the independent resource re-evaluation by WGM of the A-01 Mining License made use of all the 894 holes, with particular emphasis upon the 352 new holes drilled by Gold Tiger Corporation (i.e. Java Gold). This was NOT the case. The News Releases by Java Gold are highly misleading.

WGM specifically restricted their independent calculations to the older 1988/89 drilling results, and specifically EXCLUDED the 352 holes drilled in 1997 by Golden Tiger Corporation. The fact that all the 1997 drilling had been excluded, and the reasons for it, were not only withheld from shareholders of Java Gold but an impression given all was well and that the WGM resource re-evaluation made full use of the new drilling results.

Unpublished correspondence between WGM and Java Gold states: *“In reviewing the recorded data, WGM found inaccuracies which cause WGM to question the reliability of the 1997 data.” “The drilling was done by Mongol Alt Co. Ltd. Mongol Alt suggests an “enrichment factor” be applied to gold grades estimated from the 1997 drilling to bring the grades into the same range as the grades from earlier drilling.”* Concealing these facts by the management of Java Gold was a breach of the Securities Act of Ontario. Certainly the share price would have been adversely affected if the material facts had been published.

The 1997 Annual Report of Java Gold is not only misleading but deliberately falsifies the methodology used for deriving the resource re-evaluation, by falsely stating: *“However, continued exploration of the placer license areas in a 352-hole drill program confirmed the significant gold resource in the license areas. A resource evaluation study based on this work was carried out by the independent consulting firm of Watts, Griffis and McOuat (WGM).”*

Thus the 1997 Annual Report seriously and systematically misrepresented and concealed the facts. The beautifully prepared Annual Report – intended as a marketing and promotional tool – is grossly unsafe. This is a clear breach of the Securities Act of Ontario.

## **Reorganisation ready for Gold Dredge on Toson Alluvials**

Having achieved a positive and independent resource re-evaluation by the WGM consultants, Armand Beaudoin pushed ahead with plans for a “big gold dredge” on the Toson Alluvials, and as a preliminary, reorganised all the placer assets of Java Gold and its subsidiaries under a single 100% subsidiary – Zaamar Goldfields Ltd. (Mongolia).

This large and complex asset transfer involved fundamental changes to the balance sheets (assets and liabilities) of Golden Tiger Corporation (BVI), Mongolian Goldfields Corporation (ONTARIO), Gazar Toson Ltd. (Mongolia), Zaamar Goldfields Ltd. (BVI) and Zaamar Goldfields Ltd. (Mongolia).

This fundamental asset reorganisation was not revealed to the shareholders or creditors of Java Gold, nor were the corporation tax or custom duty implications fully considered. The asset transfer was “paid for” as a loan from the rest of the group of Java Gold Corporation. The effect on the books of Zaamar Goldfields Ltd. (Mongolia) was to have large assets, matched by the liability of a large loan from the rest of the group of Java Gold.

This asset transfer was undertaken prior to the publication of the 1997 Annual Report and the filing of the 1997 Annual Information Form. Neither of these public documents made any reference to it, and the ownership chart in the Annual Information Form is fundamentally in error and completely misleading. This is a breach of the Securities Act of Ontario and the Canada Public Corporations Act.

## Feasibility Study for Gold Dredge on Toson Alluvials

Armand Beaudoin focussed Java Gold's unrestricted cash on production of a 'Mine Feasibility Study' for the big dredge project, with the following sections:

Project Creation & Development	-	Armand Beaudoin (President & CEO Java Gold Corporation)
Environmental Issues	-	Ecos Ltd. (Mongolian consultancy with 4 years' experience)
Geology & Engineering	-	J. R. Wojcik (Senior Consultant of Watts, Griffis & McOuat for 15 years)
Finance & Economics	-	John Herbert CA (Senior Financial Officer of Java Gold)
Engineering & Construction	-	Harry L. Vassar (Engineering Consultant)

The total project cost was 22m US\$, with a payback period of 2.5 years, Net Present Value of 44m US\$, Internal Rate of Return (IRR) of 27-50%; Debt/Equity Ratio of 50%/50%; creating 236 direct and 100 indirect local jobs. The estimated mine life was 10+ years, with at least 18 tons of mineable gold and an annual output of 1.8 tons of gold. Annual gross revenue was forecast as 18.5m US\$, and Annual Net Profit before Tax of 9m US\$. An annual contribution to the Mongolian economy of 5.8m US\$ was estimated (equivalent to 2 US\$ for every Mongolian!) including Corporate Tax 3.5m US\$ and Royalties 465,000 US\$.

Armand Beaudoin engaged Hendesford Ltd. as financial consultants to take the lead in raising the finance, on the one hand from private investors for shares and on the other hand from the International Finance Corporation (IFC) in Washington.

Substantial detail is given in private correspondence between Armand Beaudoin and Rick Giannoble, a shareholder of Java Gold on 7<sup>th</sup> August 1998: *"I returned on Tuesday 4<sup>th</sup> from a week of business meetings in Germany negotiating the purchase of 2 large dredges and gold recovery plants manufactured by ROHR Engineering and the KRUPP group. I also met with German bankers for financing the Zaamar project to produce 50,000 ounces of gold per year. It is possible for finance 85% and one Mongolian bank 15%. The total cost is around US\$ 14 million."* *"We are in the final stage of negotiating prices and technical details, we hope to complete a revised financial analysis sometime next week."*

In May 1999, Armand Beaudoin updated Rick Giannoble, a shareholder of Java Gold: *"We shut down for the winter in Mongolia in October 30-98, then we started to talk to the International Finance Corporation "IFC" the commercial branch of the World Bank, we finally got an invitation to go to Washington and have meetings with their Chief Investment Officer and his assistants in Oil, Gas and Mining. The meetings went very well and we discussed mainly about the alluvial deposits in Zaamar, Mongolia which have a Mineable Gold reserve of over 600,000 ounces."*

*"IFC recommended that we re-evaluate the project and prepare a new Feasibility Report for a new finance package of US\$ 17 million. Java Gold owns Zaamar Goldfields Ltd. and has spent already US\$ 5 million on the project – this brings the total project cost to \$22 million."*

*"The new report was completed on April 29 and sent to Washington on May 4<sup>th</sup>. We are waiting for the IFC to study the contents and hold a desk review in Washington to decide on the next plan of action, they may come to Mongolia to visit the project site and meet various Government Ministries and Agencies relevant to the project and assess the Environmental and social issues."*

*"If they are happy with the due diligence they will make their recommendations and hopefully negotiations will proceed with IFC participation. After this stage there won't be any money problems."*

*"We are advised by the Chief Officer to prepare a report following the IFC Guidelines with particular attention to the Environmental and Social Impact Assessment. When agreed IFC will take the lead in arranging the total funding."* *"The upside for Java depends on the IFC when we go ahead, Java will have a strong position in Zaamar Goldfields Ltd. and the Java shares should improve once we can announce the deal, if all goes well we expect to begin implementing the project in late July depending on the financial arrangements of course. The manufacturers will begin fabrication at the same time."*

This correspondence was in May 1999; Armand Beaudoin passed away on 5<sup>th</sup> July 1999.

## Weaknesses of Java Gold's Big Dredge proposal

In the author's opinion, it was inconceivable Armand Beaudoin and his team would ever have raised the necessary finance from IFC and other investors. Due diligence on Java Gold would have revealed its mounting debts, negative working capital, the huge amount of cash removed from Java Gold by Armand Beaudoin, and the large-scale misreporting to shareholders and misfiling to regulators. In addition the project had 3 significant weaknesses:

1. unsustainable losses in attempting high % gold recovery in two consecutive years on the adjacent Toson Terrace (*"Why should they do any better with a dredge?"*);
2. the need for a more intensive EIA as the dredge would disrupt many kilometres of river, requiring a baseline ecological survey and assessment of cumulative impacts from other mines;
3. the choice of a Rohr Grab Dredge was rather arbitrary as early as February 1996, but there was clear technical merit in the tried-and-tested bucket-wheel dredge such as IHC.

## Monpolymet and the Gold Dredge Project

Shortly before Armand Beaudoin passed away, the financial problems of Java Gold became so pressing that he signed away majority control of the big dredge project to Monpolymet Ltd., a Mongolian private company whose General Director and majority shareholder is Mrs Garamjav. In 1999, Monpolymet produced and sold 225.2 kilos of gold, receiving an income of 1.95 million US\$, and is 8<sup>th</sup> out of 99 in the league table of gold producers in Mongolia. Mutual respect and trust existed between Mrs. Garamjav and Armand Beaudoin, and this was central to the signing of the Monpolymet-Zamaar Goldfields Agreement on 2<sup>nd</sup> July 1999, a few days before Armand passed away.

Monpolymet sometime before July 1999 gave two loans totalling 51,242.33 US\$ to Armand Beaudoin in order to clear some debts. Apparently, he repaid 9,500 US\$ and 5,000 US\$. Rather than repay the remaining outstanding sum of 36,742.33 US\$, Armand Beaudoin agreed to transfer the Toson Alluvial A-01 License and the Toson Terrace A-066 License to Monpolymet as part of the Monpolymet-Zaamar Goldfields Contract. The parties to the contract were:

Zaamar Goldfields Ltd.	a company with Foreign Investment registered in Mongolia
Business address:	Barmash Building, Chinggis Khan Avenue, Ulaanbaatar, Mongolia
Monpolymet Ltd.	a company registered in Mongolia
Business address:	HID-1 Tumurchnii Gudamj 44, Chingeltei District, Ulaanbaatar, Mongolia

The contract became operative: 2<sup>nd</sup> July 1999. The purpose of the contract was: *"co-operating together in the development and production of gold from Mining License A-01 and located in the Tuul river area of Zaamar... ..and Mining License 066 in the Zaamar Tov Province of Mongolia"*. The Contract stated that: *"Zaamar agrees to transfer License A-066 to Monpolymet... ..and shall retain a 10% equity interest in License A-066"* and *"Zaamar agrees to transfer License A-01 to Monpolymet... ..and shall retain a 40% equity interest in License A-01"* Monpolymet Ltd. was required to *"maintain the 2 licenses together with all the obligations, including payment of fees etc."* *"Both parties agree to share all revenue from the sale of gold produced from the License A-01 and License 066 after deducting taxes and the repayment of loans."* For the Toson Alluvials License A321 (=A-01) the split of profit was Monpolymet. 60% and Zaamar Goldfields Ltd. 40%. For the Toson Terrace License A-184 (A-066) the split of profit was Monpolymet Ltd. 90% and Zaamar Goldfields Ltd. 10%

A condition in the contract was that: *"Both parties agree that the existing project loans for a total amount of 5 million US\$ shall be repaid without interest from production during a period of 5 years at a rate of 1 million US\$ each year from the date of commencement of gold production."* and that *"Both parties agree to share the repayment of the 5 million US\$ as follows: Monpolymet 3m US\$, Zaamar 2m US\$"*

*“Monpolymet agrees, with the assistance of Zaamar, to provide the necessary financing in the form of loans, to purchase and establish a ROHR Twin Grab Dredge, or other equipment with equal or better technology, with the capacity to mine 1,000 m<sup>3</sup> of material per hour including all necessary machinery, gold plants and equipment as outlined in the attached Feasibility Study (Annex III).”*

Contractual Obligation of Zaamar Goldfields: *“...shall provide to the Project the necessary new technology that it has in its possession including any requested management and technical assistance.”* *“Zaamar agrees to participate with Monpolymet in its efforts to arrange financing...”* Unfortunately, with the passing away of Armand Beaudoin, the fulfilment of these obligations were rendered extremely difficult and for various reasons were not achieved.

Payment was required by Monpolymet to Zaamar Goldfields Ltd. totalling 0.8m US\$ by stage payments. After making 2 payments totalling 300,000 US\$, Monpolymet declined to make the 3<sup>rd</sup> payment of 250,000 US\$ in spite of being invoiced on 1<sup>st</sup> March 2000. The reluctance was due to Zaamar Goldfields Ltd. allegedly: a) not fulfilling its part of the contract to assist in raising finance for the big dredge project; b) not fulfilling its part in assisting in technology for the dredge project; c) lacking clear management after Armand Beaudoin passed away, d) lack of any payments out-of-production on the Toson Terrace during 1999. Monpolymet made no further payments pending action on these issues. Zaamar Goldfields Ltd. took the dispute to the Arbitration Court of Mongolia and lost at the hearing held on 27<sup>th</sup> June 2000.

## **Validity of Contract and Canadian Jurisdiction**

The contract is between 2 Mongolian parties thus Mongolian legislation applies, thus Canadian legislation is NOT RELEVANT regarding the validity of the contract itself.

However the actions of Zaamar Goldfields Ltd. (Mongolia) by virtue of being a 100% subsidiary of Java Gold – a public Canadian corporation, ARE subject to the Securities Act of Ontario, and to a certain degree by the Canada Business Corporations Act. Java Gold was in serious breach of Canadian legislation by transferring the largest asset of the Corporation to a third party without any prior or subsequent announcement to shareholders of Java Gold, and at the time there being only 1 director and 1 officer of Java Gold – Armand Beaudoin.

In 2000, a new Government came to power in Mongolia. The Programme of the new Government includes support for the realisation of the gold dredge on the Toson Alluvials.

## **Second Gold Dredge Proposal for TAS License**

Java Gold had another plan for a large gold dredge, on License A-002 held by TAS Corporation at Ulunt Tsamkhag in Selenge Aimag, north Mongolia. The placer is in 3 separate areas: the Ulunt Valley, the Tsamkhag Valley and the Kharganst Valley. TAS had recovered 241 kilograms by the end of 1996, and estimated a total in-situ resource of 8.5 million m<sup>3</sup> suitable for dredging containing 195,000 ounces of gold. MGC had an 80% share in this license (‘the TAS Agreement’), duly inherited by Java Gold. But Java Gold never took this proposal beyond the concept stage, in spite of giving a 3m US\$ loan to TAS to be repaid out of production.

Later, the TAS Mining License A-002 Ulunt Tsamkhag was divided into two:

Mining License 388A – Khargast Valley

In 1998, the cadastral numbering system changed, and part of 002 was renumbered as Mining License 388A (Khargast Valley – 212ha). In July 2000 this license is still held by TAS.

Mining License A225 – Tseamkhag Valley

A larger portion of 002 was renumbered as Mining License A225 (Tsamkhag Valley – 521 hectares). In 2000 this license was transferred from TAS Corporation to Argos Ltd.

## Breaches of Canadian Laws and Regulations

This study shows that Java Gold was in breach many Canadian laws and regulations:

### Canada Business Corporations Act

*“A person who makes or assists in making a report, return, notice or other document... ..that a) contains an untrue statement of a material fact, or b) omits to state a material fact required... ..to make a statement contained therein not misleading in the light of the circumstances in which it was made, is guilty of an offence and liable on summary conviction to a fine not exceeding 5,000\$ or to imprisonment for a term not exceeding 6 months.”* **Section 250 subsection 1.** *“Where a body corporate commits an offence under subsection (1), any director or officer... ..who knowingly authorised, permitted or acquiesced in the commission of the offence is a party to and guilty of the offence and liable on summary conviction to a fine not exceeding 5,000\$ or to imprisonment for a term not exceeding 6 months or to both”* **Section 250 subsection 2.** However, indemnity may be provided: *“No person is guilty of an offence under subsection (1) or (2) if the untrue statement or omission was unknown to him and in the exercise of reasonable diligence could not have been known.”* **Section 250 subsection 3.**

### Breaches of Securities Act of Ontario

*“Every person or company that, makes a statement in any material, evidence or information... ..that, in a material respect and at the time and in the light of the circumstances under which it was made, is misleading or untrue or does not state a fact that is required to be stated or that is necessary to make the statement not misleading... ..is guilty of an offence and on conviction is liable to a fine of not more than 1m \$ or to imprisonment for a term of not more than two years, or both.”* **Part XXII Enforcement – Section 122 subsection 1.**

### Breaches regarding filing of Interim Financial Statements

The reporting requirements of the Securities Act of Ontario for Interim Financial Statements which Java Gold broke are: *“Every reporting issuer... ..shall file within 60 days of the date to which it is made up an interim financial statement... ..to the end of each of the 3-month, 6-month and 9-month periods of the current financial year that commenced immediately following the last financial year, including a comparative statement to the end of each of the corresponding periods in the last financial year, made up and certified as required by the regulations and in accordance with generally accepted accounting principles.”* **Part XVIII Continuous Disclosure – Section 77 subsection 1.**

### Breaches regarding filing of Annual Financial Statements

Java Gold broke the Securities Act of Ontario regarding filing of Annual Financial Statements: *“Every reporting issuer... ..shall file annually within 140 days from the end of its last financial year comparative financial statements...”* **Part XVIII Continuous Disclosure – Section 78 subsection 1.** *“Every person or company that... ..contravenes Ontario Securities Law, is guilty of an offence and on conviction is liable to a fine of not more than 1m\$ or to imprisonment for a term of not more than two years or both.”* **Part XXII Enforcement – Section 122 subsection 1.** These penalties apply to: *“...every director or officer of the company... ..who authorises permits or acquiesces...”* **Part XXII Enforcement – Section 122 subsection 3.**

## **Recommendations to Mongolian Government: Transparency**

This investigation into Java Gold Corporation, and a web of offshore and Mongolian companies, has identified several significant issues of transparency for consideration by the Government of Mongolia. Without action, the risk of worse occurrences is high, damaging foreign investment, distorting the economy and weakening accountability to regulators and to shareholders.

### **Inadequate Transparency of Investment by Offshore Companies**

The current legislation does not discriminate between ‘offshore companies’ and more transparent investors. This allowed Armand Beaudoin to set up a number of offshore companies (e.g. Zaamar Goldfields Ltd. of BVI, Condor Resources of Bahamas) making it difficult, perhaps impossible, for Mongolian or Canadian authorities to regulate or even monitor. This permitted:

- control of far bigger exploration areas than the Government allowed at the time;
- control of local Mongolian companies, via multiple offshore companies;
- probable tax evasion;
- confusion on ownership of several companies with foreign investment;
- distortion of FIFTA statistics about which countries invest in Mongolia (Note: any entity can register an offshore company that then invests in Mongolia to enjoy the privileges given to foreign investors and rendering taxation difficult).

**Recommendation:** That investment by offshore companies should continue to be welcome, but that the ownership of the offshore companies must be revealed and published in full by FIFTA.

### **Inadequate Transparency of Mongolian Public Companies**

The Mongolian Stock Exchange (MSE) is being rapidly ‘left-behind’ by stock exchanges of other countries who now have real-time web-sites displaying movements of share prices, and more transparency with downloadable documents: a) names and addresses of all directors and officers; b) News Releases; c) Financial Statements, quarterly and annual; d) annual reports etc. The author found it MUCH easier and quicker to download facts about Canadian public companies active in Mongolia (e.g. JVAG on CDN, Tyhee on VSE) than, for instance Barmash JSC of Ulaanbaatar.

**Recommendation:** That the Mongolian Stock Exchange (MSE) be encouraged by the Government to twin with Toronto Stock Exchange (TSE) which leads the world in transparency and in raising capital for mining and exploration companies (and also dot.coms), and to gain technical assistance in high-speed website with maximum transparency.

### **Inadequate Transparency of Mining & Exploration Licenses**

The Mineral Cadaster is effective and efficient, but a loophole exists whereby a license holder may have a confidential agreement with a third party and thus the third party can amass a substantial portfolio of exploration and mining licenses without the knowledge of Government. This report documented how Java Gold Corporation and Armand Beaudoin held many licenses via private agreements with Barmash JSC, Golden Tiger Corporation (BVI), Zovlokhuud Ltd., Zaamar Goldfields Ltd. (Ontario), Zaamar Goldfields Ltd. (BVI), Condor Resources Ltd., Monrud Ltd., TAS Corporation, Gazar Holdings etc.

**Recommendation:** That the Government draw up a standard format for Third Party Agreements (including use as bank collateral), and that notarised signed copies of all such agreements be lodged with Minerals Cadaster with a registration fee of 200 US\$ each, and a statement attached to the license itself, and failure to reveal such agreements will render the license being automatically null and void plus imposition of substantial fines.

## **Recommendations to Mongolian Government: Taxation**

This investigation highlighted a number of taxation issues:

### **Corporation Tax Issues**

Corporation Tax is 40% for all but the smallest normal enterprises. This was a significant contributory factor to the failure of Java Gold Corporation to raise 15m US\$ for the Krupps Bucket Wheel Excavator for the Toson Terrace and 20m\$ for the gold dredge for the Toson Alluvials.

**Recommendation:** That the Government should consider reducing the rate of Corporation Tax for all enterprises (Mongolian and foreign-owned), and a special tax concession be granted to placer gold mining projects using high & gold recovery systems capable of recovering >95% of the gold. This would give a substantial incentive to capital investment by new and existing mines and quickly lead to major increase in gold output, as well as helping to reduce the environmental impacts. Total tax revenue would increase significantly overall.

### **Export Sales Tax Issues**

Sales Tax of 10% is levied on gold exports, and this have been a major disincentive for investment and was a significant contributory factor to the downfall of Java Gold and the cutback in exploration effort by most international companies in Mongolia, and withdrawal of many.

**Recommendation:** That the Government should treat gold as a normal export commodity and incur zero or small Sales Tax. The shortfall in revenue would be compensated by increased foreign and local investment and by an increase of companies in production all paying Royalty.

### **Personal Taxation Issues**

This report identified that in 1997 Armand Beaudoin was paid 240,000 US\$ as salary by Java Gold Corporation plus substantial expenses. Most of this income related to activity in Mongolia, but income tax to the Mongolian tax authorities was apparently not paid.

**Recommendation:** That the Government should clarify its tax policy regarding salaries and benefits of key individuals of investing companies. In the writer's opinion the foreign directors and principal officers should not pay tax, as an incentive to foreign investment.

### **TAS Loan Taxation Issues**

Mongolian Goldfields Corporation (MGC) made a loan of 3m US\$ to TAS Corporation in March 1997, plus interest at 8% per annum. Repayment was to be from gold production by MGC/TAS collaboration. Because Java Gold Corporation (100% owner of MGC) is a public company, this loan become public knowledge. The TAS Loan could not be repaid as the gold production did not take place. Thus the loan defaulted on the LENDER's side and so the TAS Loan has been converted into a gift. Thus 1.2m US\$ (plus interest) is payable as tax by TAS. Alternatively, TAS and Java Gold should agree to extend the loan and modify the terms, preventing default.

**Recommendation:** That the Government should clarify its tax policy regarding this type of loan in general, and regarding the TAS Loan in particular.

## **Recommendations to Canadian Regulators & Ontario Government**

This investigation into Java Gold Corporation (Ontario, JVAG on CDN) identified significant issues for consideration by Canadian regulatory authorities (Ontario Securities Commission and Companies Branch of Ministry of Consumer & Commercial Relations of Province of Ontario):

### **False Statements in Annual Report & Press Releases**

The News Releases of Java Gold, and its 1997 Annual Report, contained many errors of omission, distortion or falsehoods regarding material facts. Investors were misled.

**Recommendation:** A public company should be required to nominate a Material Fact Committee of 2 or more Directors plus legal counsel, to undertake line-by-line reconciliation of all published News Releases and filings, and issue a Statement with the Auditor's Report, or sooner.

### **False Statements in Corporation Profile Report**

For a lengthy period, the Corporation Profile Report contained the names of directors who had long since ceased to be directors, failed to mention key officers such as the Financial Officer etc.

**Recommendation:** A public company should be required to nominate a Secretary responsible for the accuracy of the Corporation Profile Report, under threat of heavy penalties.

### **False Claims in Investor Newsletters**

Several investor newsletters (Fagan Report, First Delta Securities etc) made false claims about material facts regarding Java Gold. Investors were misled.

**Recommendation:** Newsletters should be required to state the source of all claims made.

### **Lack of Transparency of Offshore Subsidiaries**

Java Gold, after purchasing 3 offshore BVI companies continued to deny transparency to Canadian regulators, investors and Mongolian authorities.

**Recommendation:** Every public company should issue an Annex to the Annual Report stating details of ALL companies they own or control, and retention of offshore subsidiaries justified.

### **Lack of Transparency of Mineral Licenses**

For a lengthy period, Java Gold failed to identify its license holdings in Mongolia, usually neglecting to state the License Number and never stating the name of a actual License Holder.

**Recommendation:** Every public company be required to present a table in its Annual Report and Annual Information Form of all its license holdings, together with area, latitude & longitude, date issued, license holder name, and postal address of license holder.

### **Influenced Subsidiaries not Revealed**

Java Gold has 100% subsidiaries (notably MGC Ontario) with Directors and Officers dominated by persons who also hold senior positions in another public corporation (International Pursuit, IPJ on TSE). This was not revealed, escaping the definition of a 'controlled company'.

**Recommendation:** When 50% or more Directors or Officers of a Company hold posts in another Company then the two companies should be designated as 'linked' and be required to declare this in the Annual Information Form and whenever contracts are made between the companies.

## Recommendations to Shareholders

This study offers some hope for the abandoned shareholders of Java Gold (JVAG on CDN).

### Revival of Java Gold Corporation

Java Gold Corporation's status is ACTIVE, but with NO Directors and NO Officers and a Cease Trading Order imposed. The Company has up to 1m US\$ in debts. Yet Java Gold has CASH-IN-THE GROUND, namely 40% of 13+ tons of placer gold ready to dredge at Zaamar, plus 10% of a much less voluminous dry terrace deposit alongside. Taking the 'going market rate' for placer deposits in Mongolia of 1 US\$ per gram of proven gold reserves, suggests a price tag of 5.2m US\$, but this requires discounting to allow for the large size of the project. A case can be made for a book value of 4m US\$, thus Net Assets are >3m US\$ after allowance for 1m US\$ debts, giving a hypothetical valuation of 10 cents (US) per share. Due to lack of liquidity, the market value of the shares will remain significantly less (even zero) until the liquidity problem is solved.

**Recommendation:** Shareholders should call a Shareholders' Meeting to appoint new Directors and Officers, who should seek an investor willing to pay 1.5m US\$ in return for a large block of shares (perhaps 51%). This would be sufficient to:

- pay off all outstanding debts (thought to be in the region of 1m US\$);
- start dry placer mining in Mongolia to generate cashflow and protect cash reserves;
- opportunistic acquisition of hard rock gold exploration licenses in Mongolia;
- with Monpolymet, ensure the dredge project is a success and produces 13+ tons of gold.

If these steps are undertaken, after c.50% dilution gives a baseline of 0.5 US cents per share, plus the wild card of hard rock able to take the share price much higher.

### Claims against Directors and Officers

Many false and misleading claims were made. Shareholders (past and present) suffered financial loss as a consequence. Most of these claims were made by William Burton, Stephen Dattels and Armand Beaudoin (deceased) when Directors and Officers of Java Gold Corporation.

**Recommendation:** Shareholders may wish to pursue claims against the above individuals (or estate in the case of Armand Beaudoin). Due to Directors bearing joint responsibility, then it appears that such claims may also have merit against fellow Directors. However the elapse of time may now render null and void the bulk of such claims.

### Further Claims against Directors and Officers

The neglect of the legal duty to have 3 directors led to the current paralysis of Java Gold Corporation, and stems from the failure to replace Gary German upon his resignation. This was due to inactivity by the other two directors – Armand Beaudoin and Andrew Chater. Shareholders (past and present) suffered financial loss as a consequence of this inactivity.

**Recommendation:** Shareholders of Java Gold may have a claim against Armand Beaudoin's estate and against Andrew Chater, but the case of Andrew Chater is weak and may be groundless as he resigned a couple of months after Gary German so the time for action was limited.

### Claims against the Company

Shareholders (past and present) suffered considerable financial loss as a direct consequence of false statements in Annual Report, Press Releases, Filings etc. made by Java Gold.

**Recommendation:** The Company has no cash, so nothing is gained by such claims.

## Conclusions

Java Gold Corporation was a spectacular stock-market bubble. More than 10m US\$ of cash was consumed in a short time in Indonesia and Mongolia with no result. Its rise was meteoric and its fall was abrupt, not helped by bearing the name "JAVA" with the negative market sentiment regarding Indonesia in the wake of the BRE-X fraud, and the steep fall of the gold price and copper price. Investors in the key stock markets of Canada, Australia and Britain abandoned the junior mining and exploration companies, many of which, such as Java Gold, were in the midst of heavy high-risk expenditure in exploration. Very few had got into significant production. Without scope for further refuelling with speculative funds, many juniors literally ran out of cash and were either liquidated or amalgamated. Some used their dwindling cash reserves to put exploration on hold and became internet dot.coms. A few managed to get in production sufficient to generate cashflow and are surviving. But Java Gold was and is a special case.

Java Gold made a serious attempt to generate huge cash flow from placer gold mining in Mongolia. Indeed it succeeded in owning and operating placer gold mines but the management was on a steep learning curve and, in the writer's opinion and observation, failed due to lack of thorough mine planning and consequent disorganisation of the mining and processing operations. To a large extent this was due to Java being pioneers, but also due to the greed and short-termism of the managers and many of the investors. But the logic was correct. Today 99 companies are producing placer gold in Mongolia, and more than 11 tons forecast for 2000, with an increase achieved every year for the last 7 years. Profits are substantial, even with simpler less efficient, processing equipment than Java Gold introduced. Placer gold is now Mongolia's biggest new export.

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