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VEGA ATLANTIC CORP/CO
Form 10KSB
July 01, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2002

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-27845

VEGA-ATLANTIC CORPORATION
(Exact name of small business issuer as specified in its charter)

COLORADO
(State or other jurisdiction of
incorporation of organization)

84-1304106
(I.R.S. Employer
Identification No.)

435 Martin Street, Suite 2000
Blaine, Washington 98230
(Address of Principal Executive Offices)

(360) 332-7734
(Issuer's telephone number)

4600 South Ulster Street, Suite 240
Denver, Colorado 80237
(Former name, former address and former fiscal year,
if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Check here if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this Form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State the issuer's revenues for its more recent fiscal year (ending March 31, 2002): \$ -0-.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of March 31, 2002: \$3,208,138.55.

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State the number of shares outstanding of each of the issuer's classes of common equity, as of the most practicable date:

| Class | Outstanding as of June 24, 2002 |
|----------------------------------|---------------------------------|
| Common Stock, \$.00001 par value | 15,213,405 |

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

Vega-Atlantic Corporation, a Colorado corporation, which currently trades on the OTC Bulletin Board under the symbol "VATL" and the Frankfurt Stock Exchange under the symbol "VGA" (WKN: 936302), is referred to in this Form 10-KSB as "VATL". VATL is primarily engaged in the business of minerals and oil and gas exploration, acquisition and development within the United States and worldwide.

CURRENT BUSINESS OPERATIONS

Tun Resources, Ltd.

On May 2, 2000, VATL entered into a share purchase and sale agreement with Golden Thunder Resources Ltd. ("Golden Thunder") to purchase from Golden Thunder approximately eighty percent (80%) of the issued and outstanding shares of common stock of Tun Resources Ltd., a Canadian corporation ("Tun Resources"), with an option to purchase the remaining twenty percent (20%) of the issued and outstanding shares of Tun Resources (the "Acquisition Agreement"). Pursuant to the terms of the Acquisition Agreement and extensions thereto, VATL agreed to (i) provide a total of \$1,180,000 by February 15, 2001 to fund current Tun Resources joint venture projects; (ii) issue 1,600,000 shares of its restricted common stock to Golden Thunder in exchange for the approximate eighty percent (80%) of the issued and outstanding shares of common stock of Tun Resources and an option to purchase the remaining twenty percent (20%); and (iii) be solely responsible for the future funding of Tun Resources and its joint ventures.

As of the date of this Annual Report, VATL has issued 1,600,000 shares of its restricted common stock to Golden Thunder (400,000 shares after the reverse stock split) and has provided approximately \$604,500 of funds to Tun Resources. During the prior fiscal year, VATL was unable to timely provide the required aggregate amount of \$1,180,000 by February 15, 2001.

On December 12, 2000 and as amended February 9, 2001, VATL provided a letter of offer to Golden Thunder that outlined a revised offer to purchase the remaining 20% of Tun Resources and to repurchase all of the VATL 400,000 (post-split) shares of common stock from Golden Thunder (the "Letter Offer"). VATL obtained verbal agreement from three of the four board members of Golden Thunder that the Letter Offer would be provided to the shareholders of Golden Thunder at their next annual meeting and to the CDNEX (Canadian Stock Exchange) for approval. On February 9, 2001, VATL issued a letter to Golden Thunder requesting an extension to the funding commitment requirement outlined in the Acquisition Agreement until such time as the shareholders of Golden Thunder voted to accept or reject the Letter Offer.

As of the date of this Annual Report, VATL has received an extension to the funding commitment requirement in the Acquisition Agreement to the date of the next annual meeting of the shareholders of Golden Thunder. As of the date of this Annual Report, the Letter Offer has been presented to the shareholders of Golden Thunder for their approval, such approval was not received.

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On July 8, 2001, VATL filed a Statement of Claim in the Supreme Court of British Columbia naming Golden Thunder Resources Ltd. and Tun Resources Inc. as defendants. VATL alleges in its Statement of Claim that certain representations were made by the defendants to VATL which were untrue and upon which VATL

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detrimentally relied thus suffering loss and damages, and that amounts provided to Tun Resources by VATL were refundable debt advances until VATL's funding requirement of providing a total of \$1,180,000 to Tun Resources was complete. See "Part I. Item 3. Legal Proceedings" for further disclosure. Accordingly, for accounting purposes effective March 31, 2001, VATL ceased consolidating the assets, liabilities and operations of Tun Resources in its financial statements.

As previously reported, Tun Resources is the major stakeholder in one gold exploration and development Sino Foreign joint venture in the Yunnan Province of China named the Yuntong Sino Foreign Joint Venture.

The Ailaoshan/Xiaoshuijing Gold Project

On May 4, 2000, VATL entered into a letter agreement with the No. 1 Geological Brigade of the Yunnan Bureau of Geology and Mineral Resources of Qujing City, Yunnan Province, China (the "Letter Agreement"), whereby VATL has the right to acquire an approximate 70% interest in the Ailaoshang gold concession and prospect with claims that include the Xiaoshuijing gold resource located in the Chuxion Prefecture, Yunnan Province, China. Management plans to conduct future due diligence on the gold resource to provide the basis for negotiation of the final terms of the joint venture agreement, should the due diligence warrant continuing such negotiations. According to the terms of the Letter Agreement, VATL must invest up to \$2,500,000 to expand the gold resource and increase mine production, and that the No. 1 Geological Brigade will contribute the property, exploration and mining rights, permits, land use rights and other work to date completed on the gold resource.

Management of VATL believes that exploration work conducted by the No. 1 Geological Brigade may indicate peripheral gold occurrences, which could increase future gold resources. Until the completion of all due diligence, VATL will not consider the acquisition of the Ailaoshang gold concession probable and any further involvement may be subject to funding availability.

VATL has formed Polar Explorations Ltd., a Belize corporation and the wholly-owned subsidiary of VATL ("Polar Explorations"), to act as the joint venture partner on behalf of VATL. The Ailaoshan/Xiaoshuijing Gold Project is subject to obtaining adequate financing to proceed with the project.

The Vega Property and Settlement of Litigation

As previously disclosed, on September 27, 1999, Geneva Resources, Inc. ("Geneva") and International Gold Corporation, a subsidiary of Intergold Corporation ("INGC"), on behalf of Intergold Corporation ("IGCO"), initiated legal proceedings against AuRIC Metallurgical Laboratories Inc. ("AuRIC") for multiple breaches of contract stemming from an Agreement for Services and a License Agreement and against Dames & Moore in a declaratory relief cause of action (the "Lawsuit").

VATL suspended exploration of the Vega Property due to (i) independent assessment information which did not support the claims of AuRIC and Dames & Moore; (ii) the existence of multiple breaches of contract by AuRIC and Dames & Moore under the Agreement for Services and the License Agreement; and (iii) the pending Lawsuit and further claims of action against AuRIC and Dames & Moore. Moreover, VATL deemed the probability of commercial grade gold or silver located in the Vega Property claims to be nil.

On approximately September 25, 2001, Geneva, IGCO, INGC, and others entered into settlement agreements and releases with Dames & Moore, et. al., and AuRIC

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in which the parties agreed to settle in order to diminish the continuous burden, cost and expense of protracted ongoing litigation. See "Part I. Item 3. Legal Proceedings" for further disclosure.

Investment in Other Ventures

As of the date of this Annual Report, management seeks to develop a diversified international resources exploration, development and production program. Management intends to focus VATL's business activities on resource-based diversification to other commodities and opportunities under consideration and evaluation. Management believes that it is in the best interests of VATL to diversify VATL's business activities to avoid reliance on a single commodity. In addition, activities in China have been difficult to attract investment to fund exploration and development of initiatives; various divestitures have resulted.

ITEM 2. DESCRIPTION OF PROPERTIES

Except as described above, VATL does not own any other real estate or other properties. VATL leases office space and its offices are located at 435 Martin Street, Suite 2000, Blaine, Washington 98230.

ITEM 3. LEGAL PROCEEDINGS

TUN RESOURCES LITIGATION

On July 8, 2001, VATL filed a Statement of Claim in the Supreme Court of British Columbia naming Golden Thunder Resources Ltd. and Tun Resources Inc. as defendants. VATL alleges in its Statement of Claim that certain representations were made by the defendants to VATL as follows: (i) Tun Resources had good and marketable title to its assets; (ii) the consideration paid by VATL was good and valuable consideration for acquisition of the shares in Tun Resources; (iii) the intercorporate loan financing, which was to be provided by financing arranged by private investments and therefore the joint ventures were marketable; and (iv) the control of Tun Resources would be transferred to VATL upon closing of the Acquisition Agreement. VATL alleges in its Statement of Claim that such representations were false and untrue and that the defendants made the representations fraudulently or negligently knowing them to be untrue or recklessly without caring whether they were true or false and that (i) the title Tun Resources had to the assets was not good and marketable and was considerably lower in value than represented to VATL; (ii) the consideration paid by VATL to acquire the shares of Tun Resources was excessive and not good and valuable consideration; (iii) the intercorporate loan could not be raised in the manner agreed upon by VATL and defendants; and (iv) the board of directors of Golden Thunder and Tun Resources refused or neglected to replace the board of directors of Tun Resources with the board of directors of Golden Thunder. VATL further alleges in its Statement of Claim that (i) the defendants made such representations to VATL in order to induce VATL to enter into the Acquisition Agreement; (ii) VATL reasonably relied upon the representations made to it by the Defendants; and (iii) such misrepresentations are breaches of material terms of the Acquisition Agreement and have caused VATL loss and damages. VATL is seeking general and special damages in excess of \$800,000.00.

On August 2, 2001, Tun Resources and Golden Thunder filed its Statement of Defense in which it alleges that VATL breached the Acquisition Agreement by its failure to provide funding in the amount of \$1,180,000 to Tun Resources and that such failure to provide the required funding adversely affected the value of assets to be purchased by VATL.

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As of the date of this Annual Report, management intends to aggressively pursue all such legal actions and review further legal remedies against Golden Thunder and Tun Resources.

VEGA PROPERTY LITIGATION AND SETTLEMENT

On September 27, 1999, Geneva and INGC, on behalf of IGCO, initiated legal proceedings against AuRIC and Dames & Moore by filing its complaint in the District Court of the Third Judicial District for Salt Lake City, State of Utah, for: (i) multiple breaches of contract relating to the Agreement for Services and the License Agreement, respectively, including, but not limited to, establishment and facilitation of the proprietary technology and fire assay procedures developed by AuRIC at an independent assay lab and failure to deliver the proprietary technology and procedures to IGCO and Geneva; (ii) breach of the implied covenant of good faith and fair dealing; (iii) negligent misrepresentation; (iv) specific performance; (v) non-disclosure injunction; (vi) failure by AuRIC to repay advances, and (vii) quantum meruit/unjust enrichment. INGC, on behalf of IGCO, also named Dames & Moore in the legal proceeding in a declaratory relief cause of action (collectively, the "Lawsuit").

On October 8, 1999, Geneva and INGC, on behalf of IGCO, amended its complaint by naming as defendants AuRIC, Dames & Moore, Ahmet Altinay, General Manager of AuRIC, and Richard Daniele, Chief Metallurgist for Dames & Moore and specifying damages in excess of \$10,000,000. The damages sought by Geneva and INGC, on behalf of IGCO, were based on the general claims and causes of action set forth in the amended complaint relating to reliance on the assays and representations made by AuRIC, the actions and engineering reports produced by Dames & Moore and, specifically, the negligent misrepresentations and inaccuracies contained within some or all of those Dames & Moore reports and breaches of contract by AuRIC and Dames & Moore.

On or about November 17, 1999, AuRIC, Dames & Moore, Richard Daniele and Ahmet Altinay filed separate answers to the amended complaint, along with counterclaims and a third party complaint against Geneva, INGC, IGCO and Brent Pierce for breach of contract against Geneva, breach of contract against INGC and others, defamation against IGCO, INGC, Geneva and others, injunctions against IGCO, INGC, Geneva and others, amongst other claims. In their defamation claim against IGCO, the plaintiffs sought damages and punitive damages in an amount to be determined at trial, as well as attorney's fees and costs. In connection with the cause of action for preliminary and permanent injunctions against IGCO, AuRIC and Ahmet Altinay sought attorney's fees and costs.

On approximately June 14, 2000, Dames & Moore filed an action against IGCO, INGC and others in the District Court of the Fifth Judicial District of the State of Idaho, in and for the County of Lincoln (the "Idaho Lawsuit"). In the Idaho Lawsuit, Dames & Moore sought foreclosure of a lien against IGCO and/or INGC which purportedly arose in favor of Dames & Moore. INGC dropped the bulk of its mining claims, except for a small group related to this litigation, as IGCO and INGC believed that the mining claims contain no commercial quantities of gold and silver. Dames & Moore sought to have the mining claims sold to compensate Dames & Moore for its services, materials and equipment. Dames & Moore also sought its fees and costs incurred in enforcing its claimed lien. IGCO and INGC filed an answer on or about August 8, 2000.

On June 21, 2000, Geneva and INGC, on behalf of IGCO, filed a second amended complaint in the District Court of the Third Judicial District for Salt

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Lake City, State of Utah. The second amended complaint increased detail regarding the alleged breaches of contract and increased causes of action against other parties involved by adding two new defendants, MBM Consulting, and Dr. Michael B. Merhtens, who provided consulting services to INGC. The amendment also added certain claims of other entities involved through Geneva against the defendants. The proprietary technology formed the basis of claims made by Geneva and INGC, on behalf of IGCO, in the complaints as filed with the District Court. Geneva and INGC, on behalf of IGCO, alleged that the proprietary technology does not exist and that Geneva and INGC were fraudulently, recklessly and/or negligently deceived by AuRIC, Dames & Moore, and other parties to the lawsuit.

Geneva and INGC subsequently obtained an order from the District Court to grant its Motion to Compel. The Order required that AuRIC and Dames & Moore produce the proprietary technology for Geneva's and INGC's restricted use by its legal counsel and industry experts. Geneva and INGC, on behalf of IGCO, obtained an expert opinion as to the absence of validity and ineffectiveness of the proprietary technology.

On November 10, 2000, Geneva and INGC filed motions for partial summary judgment against Dames & Moore and AuRIC. Subsequently, on March 19, 2001, the motions for partial summary judgment were denied. The court, however, provided a ninety-day period during which both parties were required to prepare for trial, and after such period the court would set a date for trial. At a scheduling conference held on July 31, 2001, the court set trial for a period of fifteen days commencing October 16, 2001. The court date was subsequently changed to October 26, 2001 pursuant to mutual consent of the parties in an attempt to mediate the dispute. Such mediation was unsuccessful.

Agreements Relating to Litigation

VATL and Geneva entered into an assignment agreement dated May 9, 2000 (the "Assignment Agreement") that transferred and conveyed to Geneva the potential claims and causes of action that VATL may have under the Sub-License Agreement with Geneva.

On June 22, 2001, IGCO, INGC, Geneva, Brent Pierce, MBM Consultants, Inc. and Michael B. Mehrtens entered into a settlement agreement (the "Mehrtens Settlement Agreement"). Pursuant to the terms of the Mehrtens Settlement Agreement, the parties agreed to treat the contents of the Mehrtens Settlement Agreement as strictly confidential and to not disclose such terms and provisions.

As IGCO has not generated revenues and has no liquid assets to commit to fund the significant estimated future expenses associated with ongoing litigation, on June 28, 2001, Geneva, IGCO, INGC, Tristar Financial Services, Inc. ("Tristar") and Alexander Cox ("Cox") entered into a funds sharing agreement (the "Funds Sharing Agreement"). Pursuant to the terms of the Funds Sharing Agreement, (i) Tristar would fund the direct costs of the litigation on a best efforts basis relating to the Lawsuit for the period from April 1, 2001 to the date that the Lawsuit was settled; (ii) as consideration therefore, Tristar would receive thirty percent (30%) of the gross proceeds received by Geneva, IGCO and INGC from any and all settlements relating to the Lawsuit, plus the repayment of all payments and advances made by Tristar (the "Tristar Payment"); and (iii) the Tristar Payment would be shared with Cox in proportion to (a) the funds advanced and paid by Cox to Tristar for the purpose of funding the costs of the litigation, (b) divided by the total amount of funds advanced by and paid by Tristar, (c) times the amount of the Tristar Payment. Cox is a shareholder of IGCO and as of the date of this Quarterly Report, holds an approximate 17.12% equity interest in IGCO.

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On September 21, 2001, Geneva, IGCO, INGC and others entered into a settlement agreement with AuRIC and Ahmet Altinay (the "AuRIC Settlement Agreement"). Pursuant to the terms of the AuRIC Settlement Agreement, the parties agreed that: (i) significant additional expense and time would be incurred to proceed with and resolve the Lawsuit and therefore desired to settle the Lawsuit; (ii) AuRIC would pay \$10,000; (iii) AuRIC would return three promissory notes in the principal amounts of \$250,000 marked cancelled payable to AuRIC by VATL, Goldstate Corporation and IGCO, respectively; (iii) AuRIC would return all stock certificates received from VATL, Goldstate Corporation and IGCO, respectively; (iv) the parties would execute and jointly file a motion to dismiss the parties' respective claims and counterclaims in the Lawsuit; (v) the parties would release one another from any and all claims and liabilities, whether known or unknown, arising from or based upon the Lawsuit; and (vi) the Agreement for Services, the License Agreement and the related Sub-License Agreement would be deemed null, void and without further force or effect.

On September 25, 2001, Geneva, IGCO, INGC, and others entered into a settlement agreement and release with Dames & Moore, et. al. (the "Dames & Moore Settlement Agreement"). Pursuant to the terms of the Dames & Moore Settlement Agreement, the parties agreed that: (i) solely to save the burden, cost and expense of continued litigation, the Lawsuit and the Idaho Lawsuit would be settled without any admission of liability by any party; (ii) the parties would execute and jointly file a motion to dismiss the parties' respective claims and counterclaims in the Lawsuit and the Idaho Lawsuit with prejudice; (iii) the parties would release one another from any and all claims and liabilities, whether known or unknown, arising from or based upon the Lawsuit and the Idaho Lawsuit, including those arising from or related to the Blackhawk projects, mining claims and property; (iv) each party would bear its own respective attorneys' fees and costs incurred in connection with the Lawsuit, the Idaho Lawsuit and the Dames & Moore Settlement Agreement; and (v) Dames & Moore would pay \$798,000.

Results of Settlement

Pursuant to the Assignment Agreement, VATL transferred and conveyed to Geneva the potential claims and causes of action that VATL may have had under the Sub-License Agreement with Geneva. The amount of damages to be recovered by Geneva and INGC pursuant to the Dames & Moore Settlement Agreement and the AuRIC Settlement Agreement were primarily used for payment of attorneys fees, expert witness fees, and associated costs of litigation. VATL, therefore, was not in a position to retain any portion of the cash settlement damages.

IGCO and INGC had paid an aggregate of \$938,805 in cash to AuRIC and Dames & Moore for services before the litigation commenced. IGCO and INGC also owed \$219,469 to Dames & Moore for disputed but unpaid services. Prior to the litigation, (i) AuRIC received 1,000,000 pre-consolidation shares of Common Stock from VATL and a promissory note in the principal amount of \$250,000, and (ii) Geneva received 500,000 pre-consolidation shares of Common Stock from VATL, a promissory note in the principal amount of \$250,000 and a promissory note in the principal amount of \$100,000.

As of the date of this Annual Report, VATL has received: (i) the share certificate issued to AuRIC representing 1,000,000 shares of Common Stock, which has been returned to VATL and cancelled; (ii) the share certificate issued to Geneva representing 500,000 shares of Common Stock, which has been returned to VATL and cancelled; (iii) the promissory note in the principal amount of

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\$250,000 payable by VATL to AuRIC, which has been cancelled; (iv) the promissory note in the principal amount of \$250,000 payable by VATL to Geneva, which has been cancelled; and (v) the promissory note in the principal amount of \$100,000 payable by VATL to Geneva, which has been cancelled.

Geneva, IGCO, INGC and other parties also received an aggregate of \$808,000 in settlement proceeds. An aggregate in excess of approximately \$2,000,000 was incurred as legal fees and associated direct costs relating to the litigation. Of the \$808,000 in settlement proceeds, \$345,000 was paid for outstanding amounts due and owing to legal counsel relating to the litigation, \$10,000 was paid to GDSA, and the remaining \$453,000 was paid to Tristar to provide a partial recovery in excess of \$900,000 paid by Tristar pursuant to the provisions of the Funds Sharing Agreement.

At the time the respective settlement agreements were entered into, after incurring in excess of \$2,000,000 in legal fees and associated direct costs relating to the litigation, management of IGCO estimated that future litigation costs to continue through the trial stage could have reached an additional \$1,000,000, with no guarantee of either outcome or award. Management of IGCO further believed that if the litigation proceeded to trial, any positive future monetary award in favor of IGCO and INGC could have been subjected to a lengthy appeals process and further legal costs. While Dames & Moore, currently a subsidiary of URS Corporation, has approximately \$2 billion in annual revenues representing a formidable resource for future legal expenses, IGCO has not generated revenues and has no liquid assets to commit to such significant estimated future expenses associated with ongoing litigation. Management of IGCO believes, therefore, that settlement of the litigation and execution of the respective settlement agreements was in the best interests of IGCO, VATL and respective shareholders.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of VATL' shareholders through the solicitation of proxies or otherwise during fiscal year ended March 31, 2002.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

Vega-Atlantic Corporation's common stock is traded on the OTC Bulletin Board under the symbol "VATL" and on the Frankfurt Stock Exchange in the Euro currency under the symbol "VGA". The market for VATL's common stock is limited, volatile and sporadic. The following table sets forth the high and low sales prices relating to VATL's common stock for the last two fiscal years. These quotations reflect inter-dealer prices without retail mark-up, mark-down, or commissions, and may not reflect actual transactions.

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| | FISCAL YEARS ENDED | | | |
|----------------|--------------------|---------|----------------|---------|
| | MARCH 31, 2002 | | MARCH 31, 2001 | |
| | HIGH BID | LOW BID | HIGH BID | LOW BID |
| First Quarter* | \$0.11 | \$0.05 | \$0.68 | \$0.180 |

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| | | | | |
|----------------|--------|---------|---------|--------|
| Second Quarter | \$0.28 | \$0.035 | \$0.593 | \$0.25 |
| Third Quarter | \$0.75 | \$0.15 | \$0.625 | \$0.04 |
| Fourth Quarter | \$0.87 | \$0.46 | \$1.00 | \$0.09 |

*Figures represent first quarters ended as of June 30, 2001 and 2000, second quarters ended as of September 30, 2001 and 2000, third quarters ended as of December 31, 2001 and 2000 and fourth quarters ended as of March 31, 2002 and 2001.

HOLDERS

As of June 24, 2002, VATL had approximately 61 shareholders of record.

DIVIDENDS

No dividends have ever been declared by the board of directors of VATL on its common stock. VATL's losses do not currently indicate the ability to pay any cash dividends, and VATL does not indicate the intention of paying cash dividends on its common stock in the foreseeable future.

SHARE ISSUANCES

In conjunction with the Dames & Moore Settlement Agreement, certain stock certificates evidencing an aggregate of 1,500,000 pre-consolidation shares of Common Stock were returned to VATL and cancelled. Aggregate issued and outstanding shares of Common Stock were reduced by 375,000 (taking into effect the reverse stock split of 4 for 1 shares on February 13, 2001) when the stock certificates were cancelled and the shares returned to treasury.

On December 27, 2001, VATL and Investor Communications International Inc. ("ICI") entered into a settlement agreement (the "Settlement Agreement"). Pursuant to the terms of the Settlement Agreement, VATL issued 1,000,000 shares of its Common Stock at approximately \$0.15 per share for an aggregate consideration of \$150,000 as payment and partial settlement of an aggregate principal of \$164,103 plus \$18,034 in accrued interest due and owing ICI. See "Part II. Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operation" and "Part II. Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act".

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Statements made in this Form 10-KSB that are not historical or current facts are "forward-looking statements" made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933 (the "Act") and Section 21E of the Securities Exchange Act of 1934. These statements often can be identified by the use of terms such as "may," "will," "expect," "believe," "anticipate," "estimate," "approximate" or "continue," or the negative thereof. VATL intends that such forward-looking statements be subject to the safe harbors for such statements. VATL wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Any forward-looking statements represent management's best judgment as to what may occur in the future. However, forward-looking statements are subject to risks, uncertainties and important factors beyond the control of VATL that could cause actual results and events to differ materially from historical results of operations and events and those presently anticipated or projected. These factors include adverse economic conditions, highly speculative nature of mineral and oil and gas acquisition, exploration and development, risks of foreign operation, entry of new and stronger competitors, inadequate capital and unexpected costs. VATL disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statement or to reflect the occurrence of anticipated or unanticipated

events.

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GENERAL

VATL is a minerals and oil and gas exploration and development company within the United States and internationally. As of the date of this Annual Report, VATL has not generated revenues from operations. During the prior fiscal years, VATL focused primarily on the exploration of the Vega Property and generated no revenues. During those prior fiscal years, VATL relied upon internally generated funds and advances, funds from the sale of shares of stock and loans from its shareholders and private investors to finance its operations and growth. As of the date of this Annual Report, intends to continue its search for other business opportunities in any geographical area involving the exploration of minerals and oil and gas or other resource based commodities.

RESULTS OF OPERATION

For Fiscal Year Ended March 31, 2002 compared with Fiscal Year Ended March 31, 2001

VATL's net income for fiscal year ended March 31, 2002 was approximately \$418,824 compared to a net loss of approximately \$4,298,771 for fiscal year ended March 31, 2001 resulting from the gain on the settlement of the Lawsuit. See "Part I. Item 3. Legal Proceedings".

During fiscal year ended March 31, 2002, VATL recorded operating expenses of approximately \$354,509, which were offset by recognized gains aggregating \$773,333, resulting in a recognized income from continuing operations of \$418,824. During fiscal year ended March 31, 2001, VATL recorded operating expenses of \$2,543,854 (a decrease of \$2,189,345).

During fiscal year ended March 31, 2002, VATL did not incur any exploration expenses as compared to exploration expenses of \$1,085,293 incurred during fiscal year ended March 31, 2001. The decrease in exploration expenses during fiscal year ended March 31, 2002 was primarily due to decreased investment relating to its Chinese joint venture projects as compared to the payments made by VATL during fiscal year ended March 31, 2001 pertaining to the acquisition costs of Tun Resources and related joint venture capital contributions.

During fiscal year ended March 31, 2002, VATL incurred general and administrative expenses of \$354,509, which primarily consisted of \$268,830 as office and general expenses, \$58,307 as professional fees, and \$27,372 as interest expense. During fiscal year ended March 31, 2001, VATL incurred general and administrative expenses of \$1,477,379, which consisted primarily of \$972,860 as office and general expenses, \$262,247 as stock-based compensation, \$151,892 as professional fees, \$40,705 as interest expense, and \$36,675 as consulting fees. The decrease in general and administrative expenses during fiscal year ended March 31, 2002 compared to fiscal year ended March 31, 2001 was primarily due to a decrease in office and general expenses, which related to the scale and scope of overall business activity during such period. Administrative expenses generally include corporate overhead, financial and administrative contracted services, consulting costs and professional fees.

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Although VATL actually incurred \$354,509 of general and administrative

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expenses during fiscal year ended March 31, 2002, such expenses were offset by the recognition of \$773,333 resulting from (i) \$66,267 gain on settlement of debt; (ii) \$50,000 realized as gain on the sale of Alaskan Explorations Corp. and related Lemachang silver deposit Sino-Foreign joint venture interest; and (iii) \$657,066 realized as a gain on the settlement of the Lawsuit. During fiscal year ended March 31, 2002, this resulted in a recognized income from continuing operations of \$418,824.

Of the \$354,509 incurred as general and administrative expenses, VATL incurred to Investor Communications International, Inc. ("ICI") approximately (i) \$260,675 for amounts due and owing for managerial, administrative and financial services rendered; and (ii) \$15,667 for advances made by ICI. This resulted in an aggregate of \$276,342 due and owing ICI during fiscal year ended March 31, 2002. During fiscal year ended March 31, 2002, VATL issued 1,000,000 shares of restricted common stock for partial settlement of an aggregate principal of \$150,000 due and owing ICI. As of March 31, 2002, \$251,128 plus \$23,508 accrued interest is due and owing ICI. One of the directors of VATL is contracted by ICI and is part of the management team provided by ICI to VATL. During fiscal year ended March 31, 2002, Mr. Grant Atkins received from ICI approximately \$12,500 as compensation.

VATL and ICI entered into a two-year consulting services and management agreement dated April 1, 1999 whereby ICI performs a wide range of management, administrative, financial, marketing and public company services including, but not limited to, the following: (i) international business relations and strategy development, (ii) investor relations and shareholder liaison, (iii) corporate public relations, press release and public information distribution, (iv) administration, including auditor and legal liaison, media liaison, corporate minutebook maintenance and record keeping, corporate secretarial services, printing and production, office and general duties, and (v) financial and business planning services, including capital and operating budgeting, banking, bookkeeping, documentation, database records, preparation of financial statements and creation of annual reports. On April 1, 2001, VATL and ICI renewed its consulting services and management agreement for an additional two-year period.

As VATL has not and currently is not in the operational stage of generating revenues, the services provided by ICI decreased during fiscal year ended March 31, 2002 as compared to the same period during 2001. As of the date of this Annual Report, such services provided by ICI include not only those services listed above related to exploration, administration, public company operations and maintenance of VATL, but also involve the negotiation of the Letter Offer and addendums thereto relating to Tun Resources and the negotiation and due diligence of the Letter Agreement relating to the Ailaoshan joint venture and other joint venture projects that VATL has divested. Moreover, with commencement of the legal proceedings against Tun Resources and Golden Thunder, and the ultimate finalization of the legal proceedings involving INGC/Geneva and AuRIC/Dames & Moore, ICI is continuously sourcing, identifying, investigating and negotiating new business opportunities to present to the board of directors of VATL. Other services provided by ICI include securing of short-term advance financing and sourcing of private placement funding.

As discussed above, the recognition of net income during fiscal year ended March 31, 2002 as compared to the net loss incurred during fiscal year ended March 31, 2001 is attributable primarily to the (i) realization of a gain on the settlement of the Lawsuit, (ii) the decrease in exploration expenses and general and administrative expenses during fiscal year ended March 31, 2002; and (iii) the recording of a loss on \$1,754,917 on settlement of convertible promissory

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notes during fiscal year ended March 31, 2001. VATL's net income during fiscal year ended March 31, 2002 was approximately \$418,824 or \$0.03 per common share compared to a net loss of approximately (\$4,298,711) or (\$0.52) per common share during fiscal year ended March 31, 2001. The weighted average number of diluted shares outstanding were 14,778,473 for fiscal year ended March 31, 2002 compared to 8,266,032 for fiscal year ended March 31, 2001 (which were restated to take into account the reverse stock split of 4 to 1).

LIQUIDITY AND CAPITAL RESOURCES

For Fiscal Year Ended March 31, 2002

VATL's financial statements have been prepared assuming that it will continue as a going concern and, accordingly, do not include adjustments relating to the recoverability and realization of assets and classifications of liabilities that might be necessary should VATL be unable to continue in operations.

As of the date of this Annual Report, there is substantial doubt regarding VATL's ability to continue as a going concern as VATL has not generated sufficient cash flow to fund its business operations and material commitments. VATL's future success and viability, therefore, are dependent upon VATL's ability to successfully develop new business prospects under consideration, joint ventures, and the continuing ability to generate capital financing. Management is optimistic that VATL will be successful in its capital raising efforts; however, there can be no assurance that VATL will be successful in raising additional capital. The failure to raise additional capital may have a material and adverse effect upon VATL and its shareholders.

Based upon a twelve-month work plan proposed by management, it is anticipated that such a work plan would require approximately \$1,000,000 of financing designed to fund various commitments and business operations. From the date of this Annual Report, management believes that VATL can satisfy its cash requirements for approximately the next six months based on its ability to successfully litigate its claims against Tun Resources and Golden Thunder and to obtain advances from certain investors and related parties, as necessary.

As of March 31, 2002, VATL's current assets were \$1,196 and its current liabilities were \$455,969. As of March 31, 2002, the current liabilities exceeded current assets by \$454,773. As of fiscal year ended March 31, 2001, the Company's current assets were \$2,942 and its current liabilities were \$1,026,539. As of March 31, 2001, the current liabilities exceeded current assets by \$1,023,597.

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The decrease in current liabilities during fiscal year ended March 31, 2002 from fiscal year ended March 31, 2001 was due primarily to a decrease in notes payable due to settlement of the Lawsuit and a decrease in directors' fees payable. See "Part I. Item 3. Legal Proceedings".

Stockholders' deficit decreased from (\$1,023,597) for fiscal year ended March 31, 2001 to (\$454,773) for fiscal year ended March 31, 2002.

VATL has not generated positive cash flows from operating activities. For fiscal year ended March 31, 2002, net cash used in operating activities was \$363,312 compared to \$1,192,021 of net cash used in operating activities for fiscal year ended March 31, 2001 (a decrease of \$828,709). As noted above, the main decrease was comprised of a net income of \$418,824 for fiscal year ended March 31, 2002 compared to a net loss of \$4,298,771 for fiscal year ended March

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31, 2001 (a decrease of \$3,879,947).

Net cash from financing activities was \$313,066 for fiscal year ended March 31, 2002 compared to cash flow from investing activities of \$1,496,429 for fiscal year ended March 31, 2001. Net cash provided by financing activities during fiscal year ended March 31, 2002 resulted primarily from advances from related parties in the amount of \$313,066. Net cash provided by financing activities during fiscal year ended March 31, 2001 resulted from (i) \$1,250,000 in proceeds from sale of stock; (ii) \$99,500 in proceeds from issuance of convertible notes; and (iii) \$148,362 in advances from related parties.

Cash flows from investing activities was \$50,000 for fiscal year ended March 31, 2002 compared to cash flow used in investing activities of \$403,294 for fiscal year ended March 31, 2001. Cash provided from investing activities during fiscal year ended March 31, 2002 resulted primarily from \$50,000 realized as proceeds from the sale of VATL's joint venture interest. Net cash used in investing activities during fiscal year ended March 31, 2001 resulted from \$404,249 used for mineral property acquisition and exploration.

MATERIAL COMMITMENTS

A significant and estimated commitment for VATL for fiscal year April 1, 2002 through March 31, 2003 pertaining to contractual arrangements is VATL's contractual funding obligations under the Acquisition Agreement. Pursuant to the terms of the Acquisition Agreement, VATL was to provide an aggregate of \$1,180,000 by February 15, 2001 to fund current Tun Resources joint venture projects. As of the date of this Annual Report, VATL has provided approximately \$604,500 of funds to Tun Resources.

VATL will not be consolidating the financing records of Tun Resources into its financial statements. VATL is assessing its legal options with respect to the various agreements and representations made by Golden Thunder and Tun Resources.

A significant and estimated commitment for VATL for fiscal year April 1, 2002 through March 31, 2003 pertaining to contractual arrangements and work orders is an amount not greater than \$900,000 to ICI. The contractual arrangement between VATL and ICI regarding compensation for services rendered for the day-to-day operations of VATL are based on a fee not to exceed \$75,000 per month based upon the performance of actual services rendered by ICI on an ongoing basis commensurate with the needs and requirements of VATL for that particular month, including services related to exploration, administrative, public company operations, and maintenance.

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AUDIT COMMITTEE

As of the date of this Annual Report, VATL has not appointed members to an audit committee and, therefore, the respective role of an audit committee has been conducted by the board of directors of VATL. When established, the audit committee's primary function will be to provide advice with respect to VATL's financial matters and to assist the board of directors in fulfilling its oversight responsibilities regarding finance, accounting, tax and legal compliance. The audit committee's primary duties and responsibilities will be to: (i) serve as an independent and objective party to monitor VATL's financial reporting process and internal control system; (ii) review and appraise the audit efforts of VATL's independent accountants; (iii) evaluate VATL's quarterly

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financial performance as well as its compliance with laws and regulations; (iv) oversee management's establishment and enforcement of financial policies and business practices; and (v) provide an open avenue of communication among the independent accountants, management and the board of directors.

The board of directors has considered whether the regulatory provision of non-audit services is compatible with maintaining the principal independent accountant's independence.

Audit Fees

During fiscal year ended March 31, 2002, VATL incurred approximately \$13,000 in fees to its principal independent accountant for professional services rendered in connection with preparation and audit of VATL's financial statements for fiscal year ended March 31, 2002 and for the review of VATLs financial statements for the quarters ended June 30, 2001, September 30, 2001 and December 31, 2001.

FINANCIAL INFORMATION SYSTEMS DESIGN AND IMPLEMENTATION FEES

During fiscal year ended March 31, 2002, VATL did not incur any fees for professional services rendered by its principal independent accountant for certain information technology services which may include, but is not limited to, operating or supervising or managing VATL's information or local area network or designing or implementing a hardware or software system that aggregate source data underlying the financial statements.

ALL OTHER FEES

During fiscal year ended March 31, 2002, VATL did not incur any other fees for professional services rendered by its principal independent accountant for all other non-audit services which may include, but is not limited to, tax-relates services, actuarial services or valuation services.

ITEM 7. FINANCIAL STATEMENTS

The information required under Item 310(a) of Regulation S-B is included in this report as set forth in the "Index to Consolidated Financial Statement".

Index to Consolidated Financial Statements

Independent Auditor's Report dated April 30, 2002.
Consolidated Balance Sheets for fiscal years ended March 31, 2002 and March 31, 2001.
Consolidated Statements of Operations for fiscal years ended March 31, 2002 and March 31, 2001, and from inception (January 28, 1987) to March 31, 2002.
Consolidated Statements of Cash Flows for fiscal years ended March 31, 2002 and March 31, 2001, and from inception (January 28, 1987) to March 31, 2002.
Consolidated Statements of Stockholders' Equity (Deficit) for years ended March 31, 1987 through fiscal year ended March 31, 2002.
Notes to Consolidated Financial Statements for March 31, 2002 and 2001.

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CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002 AND 2001

AUDITORS' REPORT

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF OPERATIONS

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LABONTE & CO.

C H A R T E R E D A C C O U N T A N T S

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Vancouver, BC Canada
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Facsimile (604) 689-2778
Email rjl@labonteco.com

AUDITORS' REPORT

To the Stockholders and Board of Directors of Vega-Atlantic Corporation

We have audited the consolidated balance sheets of Vega-Atlantic Corporation. as at March 31, 2002 and 2001 and the consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2002 and 2001 and the results of its operations and its cash flows and the changes in stockholders' equity for the years then ended in accordance with United States generally accepted accounting principles.

/s/ LaBonte & Co.

"LaBonte & Co."

CHARTERED ACCOUNTANTS

Vancouver, B.C.
April 30, 2002

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA-UNITED STATES
REPORTING DIFFERENCES

In the United States, reporting standards for auditors would require the addition of an explanatory paragraph following the opinion paragraph when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1. Our report to the stockholders and Board of Directors dated April 30, 2002 is expressed in accordance with Canadian reporting standards which do not permit a reference to such conditions and events in the auditors' report when these are adequately disclosed in the financial statements.

"LaBonte & Co."

CHARTERED ACCOUNTANTS

Vancouver, B.C.
April 30, 2002

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VEGA-ATLANTIC CORPORATION
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS

March 31, 2002 Mar

ASSETS

CURRENT ASSETS

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| | | | |
|---------------------|----|-------|-------|
| Cash | \$ | 1,196 | \$ |
| Accounts receivable | | -- | |
| | | ----- | ----- |
| | \$ | 1,196 | \$ |
| | | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES

| | | | |
|---|----|---------|-------|
| Accounts payable and accrued liabilities | \$ | 142,284 | \$ |
| Advances from related parties (Note 8) | | 313,685 | |
| Notes payable - Technology sublicense (Notes 4 and 7) | | -- | |
| Directors' fees payable (Note 8) | | -- | |
| | | ----- | ----- |
| | | 455,969 | |
| | | ----- | ----- |

STOCKHOLDERS' EQUITY (DEFICIT) (Note 5)

| | | | |
|---|----|-------------|-------|
| Preferred stock, no par value; 20,000,000 shares authorized, nil shares issued and outstanding | | -- | |
| Common stock, \$.00001 par value, 100,000,000 shares authorized 15,213,405 (March 31, 2001 - 14,588,405) shares issued and outstanding | | 339 | |
| Additional paid-in capital | | 9,367,586 | |
| Deficit accumulated during the exploration stage | | (9,822,698) | (|
| | | ----- | ----- |
| Total stockholders' equity (deficit) | | (454,773) | |
| | | ----- | ----- |
| | \$ | 1,196 | \$ |
| | | ===== | ===== |

CONTINGENCIES (Note 1)

The accompanying notes are an integral part of these consolidated financial statements

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VEGA-ATLANTIC CORPORATION
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year ended March 31, 2002 | Year ended March 31, 2001 |
|---------------------------------|---------------------------------|---------------------------------|
| | ----- | ----- |
| EXPLORATION EXPENSES | | |
| Joint venture acquisition costs | \$ -- | \$ 1,085,293 |
| Claims staking and exploration | -- | -- |
| Research and development | -- | -- |

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| | | |
|--|------------|----------------|
| Total exploration expenses | -- | 1,085,293 |
| GENERAL AND ADMINISTRATIVE EXPENSES | | |
| Consulting fees | -- | 36,675 |
| Directors' fees | -- | 13,000 |
| Office and general | 268,830 | 972,860 |
| Interest expense | 27,372 | 40,705 |
| Professional fees | 58,307 | 151,892 |
| Stock-based compensation | -- | 262,247 |
| Gain on settlement of debt | (66,267) | -- |
| Gain on sale of joint venture interest (Note 3) | (50,000) | (19,318) |
| Total general and administrative expenses | 238,242 | 1,458,561 |
| LOSS BEFORE THE FOLLOWING | (238,242) | (2,543,854) |
| Gain on settlement of lawsuit (Notes 4 and 7) | 657,066 | -- |
| Loss on settlement of convertible promissory notes | -- | (1,754,917) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | 418,824 | (4,298,771) |
| DISCONTINUED OPERATIONS | | |
| Loss from discontinued operations of Century Manufacturing, Inc. | -- | -- |
| NET INCOME (LOSS) FOR THE PERIOD | \$ 418,824 | \$ (4,298,771) |
| BASIC INCOME (LOSS) PER SHARE | \$ 0.03 | \$ (0.52) |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | 14,778,473 | 8,266,032 |

The accompanying notes are an integral part of these consolidated financial statements.

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VEGA-ATLANTIC CORPORATION
 (An Exploration Stage Company)
 STATEMENT OF STOCKHOLDERS' EQUITY
 For the period from January 28, 1987 (inception) to March 31, 2002

| | Common Stock | | Additional | Deficit |
|---|--------------|--------|------------|---------|
| | Shares | Amount | Paid - in | During |
| | ----- | ----- | Capital | Explor |
| | ----- | ----- | ----- | Stage |
| Stock issued for services performed, February 25, 1987 (\$.0125 per share) | 20,000 | \$ 1 | \$ 249 | - |

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| | | | | |
|---|-----------|-------|------------|--------|
| Stock issued for services performed, February 25, 1987 (\$.02 per share) | 5,000 | -- | 100 | -- |
| Stock issued for services performed, February 25 (\$.0007 per share) | 725,000 | 7 | 493 | -- |
| Net Loss, Year ended December 31, 1987 | -- | -- | -- | (8,) |
| Balance, December 31, 1987 | 750,000 | 8 | 842 | (8,) |
| Net loss, Year ended December 31, 1988 | -- | -- | -- | (1,) |
| Balance, December 31, 1988 | 750,000 | 8 | 842 | (9,) |
| Stock issued for services performed, July 20, 1989 (\$.0001 per share) | 4,250,000 | 42 | 958 | -- |
| Net loss, Year ended December 31, 1989 | -- | -- | -- | (2,) |
| Balance, December 31, 1989 | 5,000,000 | 50 | 1,800 | (12,) |
| Net loss, Year ended December 31, 1990 | -- | -- | -- | (1,) |
| Balance, December 31, 1990 | 5,000,000 | 50 | 1,800 | (13,) |
| Net loss, Year ended December 31, 1991 | -- | -- | -- | (2,) |
| Balance, December 31, 1991 | 5,000,000 | 50 | 1,800 | (16,) |
| Net loss, Year ended December 31, 1992 | -- | -- | -- | (1,) |
| Balance, December 31, 1992 | 5,000,000 | 50 | 1,800 | (17,) |
| Net loss, Year ended December 31, 1993 | -- | -- | -- | (6,) |
| Balance, December 31, 1993 | 5,000,000 | 50 | 1,800 | (24,) |
| Net loss, Year ended December 31, 1994 | -- | -- | -- | (4,) |
| Balance, December 31, 1994 | 5,000,000 | 50 | 1,800 | (29,) |
| Capital Contribution from Shareholder, April 17, 1995 | -- | -- | 27,301 | -- |
| Stock issued for cash, May 8, 1995 (\$1.02 per share) | 100,000 | 1 | 101,999 | -- |
| Net loss, year ended December 31, 1995 | -- | -- | -- | (95,) |
| Balance, December 31, 1995 | 5,100,000 | \$ 51 | \$ 131,100 | (124,) |

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The accompanying notes are an integral part of these consolidated financial statements

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VEGA-ATLANTIC CORPORATION
 (An Exploration Stage Company)
 STATEMENT OF STOCKHOLDERS' EQUITY
 For the period from January 28, 1987 (inception) to March 31, 2002
 (Continued)

| | Common Stock | | Additional Paid - in Capital |
|---|--------------|--------|------------------------------------|
| | Shares | Amount | |
| Balance, December 31, 1995 | 5,100,000 | \$ 51 | \$ 131,100 |
| Issuance of stock to purchase subsidiary, March 28, 1996 (\$1.687 per share) | 1,000,000 | 10 | 1,686,990 |
| Net loss, quarter ended March 31, 1996 | -- | -- | -- |
| Balance, March 31, 1996 | 6,100,000 | 61 | 1,818,090 |
| Stock issued for cash, May 6, 1996 (\$1.00 per share) | 50,000 | 1 | 49,990 |
| Stock issued for cash, May 8, 1996 (\$1.00 per share) | 120,000 | 1 | 119,990 |
| Stock issued for cash, May 13, 1996 (\$1.00 per share) | 35,000 | | 35,000 |
| Stock issued for cash, March 12, 1997 (\$.25 per share) | 1,800,000 | 18 | 449,980 |
| Stock issued for cash, April 15, 1997 (\$.20 per share) | 250,000 | 3 | 49,990 |
| Issuance of stock in repayment of advances, March 12, 1997 (\$.25 per share) | 200,000 | 2 | 49,990 |
| Net loss, year ended March 31, 1997 | | | |
| Balance, March 31, 1997 | 8,555,000 | 86 | 2,573,060 |
| Stock issued for cash, March 13, 1998 (\$15 per share) | 3,000,000 | 30 | 449,970 |
| Stock issued for cash, March 24, 1998 (\$.15 per share) | 1,333,333 | 13 | 199,980 |
| Stock issued for cash, March 25, 1998 (\$.15 per share) | 1,306,667 | 13 | 195,980 |
| Stock issued for cash, March 26, 1998 (\$.15 per share) | 360,000 | 4 | 53,990 |
| Net loss, year ended March 31, 1998 | | | |
| Balance, March 31, 1998 | 14,555,000 | 146 | 3,473,000 |
| Issuance of common shares in exchange for \$5,841 of accounts payable, Jan. 15, 1999 (total \$.195 per share) | 30,000 | -- | 5,840 |
| Issuance of common shares in exchange for technology license agreement, Mar. 15, 1999 (total \$.14 per share) valued at market price at date of issuance | 1,000,000 | 10 | 139,990 |

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| | | | |
|--|------------|--------|-------------|
| Issuance of common shares in exchange for profit sharing interest, March 28, 1999 (total \$.15 per share) valued at market price at date of issuance | 500,000 | 5 | 74,99 |
| Issuance of SEC Reg D-504 common shares for cash, March 31, 1999 (total \$.20 per share) | 1,500,000 | 15 | 299,98 |
| Net loss, Year ended March 31, 1999 | -- | -- | -- |
| Balance, March 31, 1999 | 17,585,000 | \$ 176 | \$ 3,993,81 |

The accompanying notes are an integral part of these consolidated financial statements.

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VEGA-ATLANTIC CORPORATION
(An Exploration Stage Company)
STATEMENT OF STOCKHOLDERS' EQUITY
For the period from January 28, 1987 (inception) to March 31, 2000
(Continued)

| | Common Stock | | Additional Paid - in Capital |
|--|--------------|--------|------------------------------------|
| | Shares | Amount | |
| Balance, March 31, 1999 | 17,585,000 | \$ 176 | \$ 3,993,81 |
| Stock issued in settlement of advances payable, March 29, 2000 (total \$.50 per share) | 2,061,000 | 20 | 1,030,40 |
| Stock subscription for Reg S common shares (total \$.25 per share) | 560,000 | 6 | 139,90 |
| Net loss, Year ended March 31, 2000 | -- | -- | -- |
| Balance, March 31, 2000 | 20,206,000 | 202 | 5,164,20 |
| Stock issued for interest in Tun Resources Inc., May 1, 2000 (\$.42 per share) | 1,600,000 | 16 | 671,90 |
| Stock issued in settlement of debt, May 30, 2000 (\$.075 per share) | 200,000 | 2 | 14,90 |
| Stock issued for cash, June 30, 2000 (\$.25 per share) | 2,900,000 | 29 | 724,90 |
| Stock subscription for Reg S common shares (total \$.25 per share) | (560,000) | (6) | (139,90) |
| Stock issued for cash, July 7, 2000 (\$.25 per share) | 100,000 | 1 | 24,90 |
| Stock issued for cash, July 11, 2000 (\$.25 per share) | 800,000 | 8 | 199,90 |

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| | | | |
|--|--------------|--------|------------|
| Stock issued for cash, August 17, 2000 (\$.25 per share) | 1,200,000 | 12 | 299,9 |
| Stock based compensation | -- | -- | 262,2 |
| Rollback, 4:1, December 22, 2000 | (19,834,495) | -- | -- |
| Stock issued in settlement of debt, December 27, 2000 (\$.03 per share) | 7,976,900 | 80 | 239,2 |
| Loss on settlement of debt | -- | -- | 1,754,9 |
| Net loss, Year ended March 31, 2001 | -- | -- | -- |
| Balance, March 31, 2001 | 14,588,405 | 344 | 9,217,5 |
| Return of stock to treasury, October 31, 2001 | (375,000) | (15) | |
| Stock issued in settlement of debt, November 13, 2001 (\$.15 per share) | 1,000,000 | 10 | 149,9 |
| Net income, Year ended March 31, 2002 | -- | -- | -- |
| Balance, March 31, 2002 | 15,213,405 | \$ 339 | \$ 9,367,5 |

The accompanying notes are an integral part of these consolidated financial

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VEGA-ATLANTIC CORPORATION
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended March 31, 2002 | Year Mar |
|--|---------------------------------|-------------|
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) for the period | \$ 418,824 | \$ (4,29 |
| Adjustments to reconcile net income (loss) to net cash from operating activities: | | |
| - non-cash loss on sale of subsidiary | | |
| - non-cash gain on sale of joint venture | | (1 |
| - non-cash research and development expense | -- | |
| - non-cash interest recognized through discount adjustment | -- | |
| - common stock issued in settlement of debt | -- | |
| - impairment of interest in mineral properties | -- | 1,08 |
| - stock-based compensation | -- | 26 |
| - loss on settlement of convertible promissory notes | -- | 1,75 |
| - gain on settlement of debt, net of current period accrual | (61,267) | |
| - gain on settlement of lawsuit, net of current period interest accrual | (651,316) | |
| - gain on sale of joint venture interest | (50,000) | |
| - net changes in working capital items | (19,553) | 2 |
| | ----- | ----- |

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| | | |
|--|-----------|-------|
| CASH FLOWS USED IN OPERATING ACTIVITIES | (363,312) | (1,19 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances from related parties - net | 313,066 | 14 |
| Interest paid | -- | (|
| Convertible notes | -- | 9 |
| Sale of common stock | -- | 1,25 |
| CASH FLOWS FROM FINANCING ACTIVITIES | 313,066 | 1,49 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Mineral property acquisition and exploration | -- | (40 |
| Purchase of subsidiaries, net of cash acquired | -- | |
| Proceeds from sale of joint venture interest | 50,000 | |
| CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES | 50,000 | (40 |
| INCREASE (DECREASE) IN CASH | (246) | (9 |
| CASH, BEGINNING OF PERIOD | 1,442 | 10 |
| CASH, END OF PERIOD | \$ 1,196 | \$ |

OTHER NON-CASH TRANSACTIONS:

1. In connection with the settlement of the lawsuit described in Note 7, during the year ended March 31, 2002, the Company wrote off its notes payable and accrued interest resulting in a gain of \$657,066.
2. During the year ended March 31, 2002, the Company issued 1,000,000 shares in settlement of debt.

The accompanying notes are an integral part of these consolidated financial statements.

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VEGA-ATLANTIC CORPORATION
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002 AND 2001

NOTE 1: NATURE AND CONTINUANCE OF OPERATIONS

The Company is an exploration stage company and to date has not commenced any commercial operations or generated any revenues. Due to the inability to raise sufficient capital, the Company has either sold or disposed of its interests in mineral properties. Refer to Note 3.

At March 31, 2002, the Company had a working capital deficiency of \$454,773 (2001 - \$1,023,597) and has incurred substantial losses to date and further losses are anticipated in the future. These factors raise substantial doubt

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regarding the Company's ability to continue as a going concern. The Company's future operations are dependent on its ability to raise additional working capital, settling its outstanding debts and ultimately on generating profitable operations from a new business venture.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements for the year ended March 31, 2002 include the accounts of the Company and its 100% owned subsidiaries, Polar Explorations Ltd. and Alaskan Explorations Corp. which was sold during May, 2001 All significant intercompany transactions and account balances have been eliminated.

Use of Estimates and Assumptions

Preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all liquid investments, with an original maturity of three months or less when purchased, to be cash equivalents.

Foreign Currency Translation

The financial statements are presented in United States dollars. In accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation", foreign denominated monetary assets and liabilities are translated to their United States dollar equivalents using foreign exchange rates which prevailed at the balance sheet date. Revenue and expenses are translated at average rates of exchange during the year. Related translation adjustments are reported as a separate component of stockholders' equity, whereas gains or losses resulting from foreign currency transactions are included in results of operations.

Interest in Mineral Properties

Mineral property acquisition costs, capital contributions and exploration costs are expensed as incurred until such time as proven economically recoverable reserves are established.

Net Loss per Common Share

Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Dilutive earnings per share reflect the potential dilution of securities that could share in the earnings of the Company. The accompanying presentation is only of basic loss per share as the potentially dilutive factors are anti-dilutive to basic loss per share.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for the estimated tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002 AND 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Stock-Based Compensation

The Company accounts for stock-based compensation in respect to stock options granted to employees and officers using the intrinsic value based method in accordance with APB 25. Stock options granted to non-employees are accounted for using the fair value method in accordance with SFAS No. 123. In addition, with respect to stock options granted to employees, the Company provides pro-forma information as required by SFAS No. 123 showing the results of applying the fair value method using the Black-Scholes option pricing model.

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from other than employees in accordance with SFAS No. 123 and the conclusions reached by the Emerging Issues Task Force in Issue No. 96-18. Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably measurable. The value of equity instruments issued for consideration other than employee services is determined on the earliest of a performance commitment or completion of performance by the provider of goods or services as defined by EITF 96-18.

On March 31, 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No.44, Accounting for Certain Transactions Involving Stock Compensation - An Interpretation of APB Opinion No. 25 ("FIN 44"), which provides guidance as to certain applications of APB 25. FIN 44 is generally effective July 1, 2000 with the exception of certain events occurring after December 15, 1998. The Company has determined that the implementation of this standard does not have a material impact on its financial statements.

NOTE 3: INTEREST IN MINERAL PROPERTIES

Tun Resources Inc.: On January 12, 2000, the Company entered into a letter of intent with Golden Thunder Resources Ltd. ("Golden Thunder"), a Canadian public company, to purchase from Golden Thunder 80% of the issued and outstanding shares of common stock of Tun Resources Inc., a Canadian corporation ("Tun Resources"), with an option to purchase the remaining 20% of the issued and outstanding shares of Tun Resources at fair market value.

Tun Resources is the major stakeholder in a gold exploration and development joint venture in the Yunnan Province of China. Tun Resources entered into the Yuntong JV agreement, which has the rights to four separate gold exploration and mining development properties, on August 8, 1994 with Yunnan Province Dianxi Geological Engineering Exploration Development Company in China. The Yuntong joint venture is in the process of exploring its mineral properties and has not yet determined whether these properties contain proven reserves. Accordingly, the Company has expensed acquisition costs and JV capital contributions incurred to date.

On May 2, 2000, the Company executed a definitive closing agreement to purchase the 80% interest in Tun Resources Inc. The 80% interest in Tun Resources was purchased in exchange for the funding commitment of \$1,180,000 by August 15, 2000 (subsequently extended to February 15, 2001, and further extended to the date of the vendor's next annual shareholder meeting) and the issuance of 400,000 restricted shares in the capital of the Company valued at \$672,000. At the date of acquisition, Tun Resources had a stockholders' deficit of \$149,044. The Company accounted for its acquisition of Tun Resources using the purchase

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method and allocated the stockholder's deficit of Tun Resources as well as the \$672,000 cost of acquisition to the carrying value of the underlying joint venture interests to which a full impairment provision was recorded.

On December 12, 2000, as amended on February 9, 2001, the Company provided an offer to Golden Thunder that outlined a revised offer to purchase the remaining 20% of Tun Resources and to repurchase all of the Company's 400,000 shares owned by Golden Thunder in consideration for \$113,750. The Company also issued a letter to Golden Thunder requesting an extension to the funding commitment requirement outlined in the Acquisition Agreement until such time as the shareholders of Golden Thunder Resources, Inc. have voted to accept or reject the amended offer dated February 9, 2001. Subsequently, the amended offer was rejected by the shareholders of Golden Thunder. The Company has initiated legal proceedings against Golden Thunder and Tun Resources for breaches of the Acquisition Agreement and other causes of action, and seeks damages of in excess of \$800,000. Golden Thunder and Tun Resources have filed a statement of defense alleging that the Company breached the acquisition agreement. Accordingly, for accounting purposes effective March 31, 2001 the Company ceased consolidating the assets, liabilities and operations of Tun Resources in its financial statements.

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VEGA-ATLANTIC CORPORATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002 AND 2001

NOTE 3: INTEREST IN MINERAL PROPERTIES (con't)

Lemachang Silver Mine Joint Venture Proposal: Effective July 26, 2000, the Company, through its then wholly-owned subsidiary Alaskan Explorations Corporation, a British West Indies Corporation ("Alaskan"), entered into a Sino-Foreign Cooperative Joint Venture whereby the Company had agreed to joint venture with the No. 1 Geological Brigade of Yunnan Bureau of Geology and Mineral Resources and acquire majority control in the producing Lemachang silver mine, located in the Ludian County Seat, of the Yunnan Province, PRC.

Subject to the completion of its due diligence, the Company committed to spend \$8,000,000 to increase production, expand reserves and improve overall silver recovery in return for an 85% interest in the silver mine and deposit areas. The Board of Directors of the Company determined that the Company was unable to meet its funding obligations and consequently by agreement dated May 11, 2001, sold 100% of its interest in Alaskan and forfeited all of the rights and obligations under the JV Contract in consideration of \$50,000, resulting in a gain of \$50,000.

NOTE 4: NOTES PAYABLE

Pursuant to a Technology Sub-license agreement with Geneva Resources, Inc. ("Geneva"), the Company issued promissory notes to both Geneva and AuRIC Metallurgical Laboratories LLC ("AuRIC") in the amount of \$250,000 to each company. These were 3% interest bearing notes and were payable upon the transfer of the technology. Pursuant to the agreement, the Company had issued a convertible promissory note to Geneva in the amount of \$100,000 that was convertible to 125,000 restricted common shares upon demand, and bore interest at the rate of 8% per annum and issued 250,000 restricted common shares to AuRIC. These promissory notes were due and payable upon the transfer of the

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technology. Upon the settlement of the lawsuit described in Note 7, the promissory notes to AuRIC and Geneva totaling \$600,000 were cancelled during the year as well as \$57,066 in accrued interest resulting in a gain of \$657,066 from the write-off of these debts.

NOTE 5: STOCKHOLDERS' EQUITY

Common Stock

On May 1, 2000, the Company issued 1,600,000 pre-consolidation shares at \$0.42 per share, totaling \$672,000, for the purchase of an 80% interest in Tun Resources, Inc. (Refer to Note 3)

On May 29, 2000, the Company issued 200,000 pre-consolidation shares for the settlement of accounts payable of the Corporation in the amount of \$15,000.

Pursuant to a Reg S private placement offering memorandum dated March 1, 2000, the Company offered 5,000,000 pre-consolidation shares of common stock at \$.25 per share. This offering was intended to be used for continued financing of the exploration, development and expansion programs being conducted on the Company's joint venture projects in China, consulting fees, and to provide working capital. As of March 31, 2001, 100% of the offering was completed and the 5,000,000 shares had been issued.

On December 22, 2000 the Company completed a reverse stock split ("consolidation") of one-for-four of the Company's outstanding common stock, resulting in a reduction of outstanding common stock from 26,446,000 to 6,611,500. In addition, authorized common stock was reduced from 500,000,000 to 100,000,000.

On December 27, 2000 the Company issued 7,976,905 post-consolidation shares at \$.03 per share with a fair value of \$1,994,226 on the conversion of convertible promissory notes of \$239,309, including accrued interest, resulting in a loss on conversion of \$1,754,917. The 7,976,905 post-consolidation shares represented 54.7% of the outstanding shares of the Company at March 31, 2001 and accordingly the conversion of the promissory notes resulted in a change in control of the Company.

On October 31, 2001 the Company cancelled 250,000 post-consolidation shares in the name of AuRIC Metallurgical Laboratories and 125,000 post consolidation shares in the name of Geneva Resources Inc. (Refer to Note 7)

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VEGA-ATLANTIC CORPORATION
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002 AND 2001

NOTE 5: STOCKHOLDERS' EQUITY (con't)

On November 13, 2001 the Company converted \$150,000 of debt owing to Investors Communications for 1,000,000 common shares of the Company's stock at \$0.15 per share. (Refer to Note 8)

The weighted average number of shares outstanding for the year ended March 31, 2001 have been restated to reflect the 4:1 share consolidation on December 22,

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2000.

At March 31, 2002, there were 15,213,405 post-consolidation shares of common stock outstanding.

NOTE 6: EMPLOYEE STOCK OPTION PLAN

On May 1, 2000, the shareholders of the Company as represented by 51% of the issued and outstanding common shares of the Corporation voted to approve the creation of an employee stock option plan. The plan extends for a 10-year term and consists of 500,000 share options priced at \$1.00 per share.

All options granted expire on April 30, 2010. Shares which may be acquired through the plan may be authorized but unissued shares of common stock or issued shares of common stock held in the Company's treasury. Options granted under the plan will not be in lieu of salary of other compensation for services.

As of March 31, 2002, 487,500 share options with an exercise price of \$1.00 per share of common stock are outstanding and during the period, no options had been exercised or forfeited, and no options had expired.

| | 2002 | |
|------------------------------------|----------------------|------------------------------------|
| | Number of options | Weighted average exercise price |
| | ----- | ----- |
| Outstanding at Beginning of Period | 487,500 | \$1.00/share |
| Options Granted | 0 | 0 |
| Options Exercised | 0 | 0 |
| Options Forfeited | 0 | 0 |
| Options Expired | 0 | 0 |
| | ----- | ----- |
| Outstanding at End of Period | 487,500 | \$1.00/share |
| | ===== | ===== |
| Exercisable at End of Period | 487,500 | \$1.00/share |
| | ===== | ===== |

Stock-based compensation

The following pro-forma information is provided as required by SFAS No. 123 showing the results of applying the fair value method using the Black-Scholes option pricing model assuming a dividend yield of 0%, a risk-free interest rate of 5%, an expected life of ten years and an expected volatility range of 204%.

| | Year ended | |
|------------------------------------|------------|---------------|
| | March 31, | |
| | 2002 | 2001 |
| | ----- | ----- |
| Net income (loss) | \$ 418,824 | \$(4,298,771) |
| Pro-forma stock-based compensation | -- | (224,783) |
| | ----- | ----- |
| Pro-forma net income (loss) | \$ 418,824 | \$(4,523,554) |
| | ===== | ===== |

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| | | | | |
|---------------------------------------|-------|------|-------|--------|
| Pro-forma net income (loss) per share | \$ | 0.03 | \$ | (0.55) |
| | ===== | | ===== | |

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VEGA-ATLANTIC CORPORATION
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002 AND 2001

NOTE 7: SETTLEMENT OF LAWSUIT

On September 27, 1999, Intergold Corporation ("IGCO"), its wholly owned subsidiary, International Gold Corporation ("IGC"), and Geneva initiated a legal complaint against AuRIC, Dames & Moore, Ahmet Altinay, General Manager of AuRIC, and Richard Daniele, Chief Metallurgist for Dames & Moore. The damages sought by IGCO/IGC/Geneva were to be determined in court.

The damages incurred stemmed from reliance on assays and representations made by AuRIC and upon actions and engineering reports produced by Dames & Moore related to the Blackhawk claims. IGCO/IGC/Geneva also alleged there were breaches of contract by AuRIC and Dames and Moore, as well as other causes of action. This legal proceeding affected the timing of alleged technology to be transferred from Geneva to the Company that was scheduled initially before the end of 2000.

On May 8, 2000, the Company executed an assignment agreement that transferred and conveyed the potential claims and causes of action that the Company may have in connections with the Sub-license Agreement with Geneva. If amounts were recovered by the lawsuit initiated by International Gold Corporation and Geneva, the Company would receive the equivalent pro rata share of the Claims in relation to all other claims and causes of action for which any damages of settlement amounts were recovered.

During the year a settlement was reached and the parties agreed to have the lawsuit dismissed. As part of the settlement, the promissory notes totaling \$600,000 plus accrued interest of \$51,066 to AuRIC and Geneva were cancelled, and 250,000 post consolidation shares issued to AuRIC and 125,000 post consolidation shares issued to Geneva were returned the Company for subsequent cancellation. All cash recovered through the settlement was paid to Tristar Financial Services, Inc. as partial repayment for legal fees and direct litigation costs it had incurred on behalf of the plaintiffs according to the terms of a law suit funding agreement between the plaintiffs and Tristar Financial Services, Inc. As total litigation costs incurred by Tristar Financial Services, Inc. exceeded the cash recovered through the settlement, there was no surplus available for application to the losses incurred by the Company with respect to the litigation. The plaintiff's settlement included \$808,000 in cash, of which \$345,000 was paid for outstanding legal costs, \$10,000 was paid to Goldstate Corporation, and \$453,000 was paid to Tristar Financial Services, Inc. Cash paid to Tristar Financial Services, Inc. was less than costs incurred by Tristar Financial Services, Inc. under the lawsuit funding agreement between the plaintiffs and Tristar Financial Services, Inc.

NOTE 8: RELATED PARTY TRANSACTIONS

During the year ended March 31, 2002 the Company has written off previously incurred directors fees of \$66,267 to current and former directors of which

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\$5,000 was accrued during the year. At March 31, 2002, there are no directors fees owing.

During the year ended March 31, 2002 the Company incurred managerial, administrative and investor relation services of \$260,675 (2001 - \$643,400) to Investor Communications International, Inc. ("ICI") under a consulting services and management agreement dated April 1, 1999. A director of the Company provides consulting services to ICI and was paid approximately \$12,500 (2001 - \$27,500) during the year. At March 31, 2002 ICI had made net cash advances of \$15,667 (2001 - \$518,614 was repaid to ICI). In addition, the Company issued 1,000,000 common shares for \$150,000 in debt and at March 31, 2002 \$251,128 plus \$23,508 accrued interest (2001 - \$124,786 plus \$3,473 accrued interest) is owing to ICI.

In addition, at March 31, 2002 \$35,685 plus \$3,364 accrued interest is owing to certain shareholders for cash advances. These are unsecured and without any terms of repayment.

NOTE 9: INCOME TAXES

As at March 31, 2002 the Company has net operating loss carryforwards of approximately \$1,410,000 which result in deferred tax assets. The carryforwards will expire, if not utilized, between 2008 and 2017. Management believes that the realization of the benefits from these deferred tax assets appears uncertain due to the Company's history of operating losses. Accordingly, a full deferred tax asset valuation allowance has been provided and no deferred tax asset benefit has been recorded. No tax provision has been recorded in the current year as the Company have sufficient loss carryforwards to offset all taxable income recorded in the year.

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ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On October 20, 2000, Johnson, Holscher & Company, P.C. ("JH&C"), the principal independent accountant of VATL, resigned because of a business decision made by management of JH&C to cease rendering services for clients which involve services or representation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended. During VATL's two most recent fiscal years and any subsequent interim period preceding the resignation of JH&C, there were no disagreements with JH&C which were not resolved on any matter concerning accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of JH&C, would have caused JH&C to make reference to the subject matter of the disagreements in connection with its reports. JH&C, as VATL's principal independent accountant, did not provide an adverse opinion or disclaimer of opinion to VATL's financial statements, nor modify its opinion as to uncertainty, audit scope or accounting principles. The principal independent accountant did modify its opinion due to going concern uncertainties.

On October 20, 2000, the board of directors of VATL approved and authorized the engagement of LaBonte & Co., Chartered Accountants, #1205 - 1095 West Pender Street, Vancouver, British Columbia V6E 2M6 as the principal independent accountant for VATL.

Since October 20, 2000 and to date, there have been no disagreements with

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LaBonte & Co. which were not resolved on any matter concerning accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of LaBonte & Co., would have caused LaBonte & Co. to make reference to the subject matter of the disagreements in connection with its reports. LaBonte & Co, as VATL's current principal independent accountant, has not provided an adverse opinion or disclaimer of opinion to VATL's financial statements, nor modify its opinion as to uncertainty, audit scope or accounting principles. The principal independent accountant did modify its opinion due to going concern uncertainties.

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PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Identification of Directors and Executive Officers

The directors and executive officers of VATL are as follows:

| Name | Age | Position with VATL |
|----------------------------------|-----|------------------------|
| ---- | --- | ----- |
| Grant Atkins | 42 | Director and President |
| John Frederick William Bowles | 59 | Director/Secretary |
| Gary Powers | 56 | Director |

GRANT ATKINS has been a Director and the President of VATL since October 15, 1998. Mr. Atkins has also been a director and the secretary/treasurer of Intergold Corporation since September of 1998. For the past five years, Mr. Atkins has been self-employed and has acted as a financial and project coordination consultant to clients in government and private industry. He has extensive multi-industry experience in the fields of finance, administration and business development. Industry experience includes a one-year role in 1998-99 as interim Chief Financial Officer of Emergency Communications for Southwest British Columbia ("E-Comm"). During 1998 and 1999, Mr. Atkins was a consultant through the private management consulting companies of Tristar Financial Services, Inc. and Investor Communications International, Inc. Mr. Atkins was retained to conduct financial consulting and project coordination services for the British Columbia Ambulance Service on a part-time basis through 1999. Mr. Atkins has provided organization and controller duties to VATL since October of 1998.

JOHN FREDERICK WILLIAM BOWLES, BSc., Ph.D, FGS, FIMM, CEng., CGeol., EurGeol. Dr. Bowles has been a director of VATL since November 23, 1999, and is a Mineralogist and Economic Geologist. Mr. Bowles graduated from the University of London with honors and earned both Bachelor and Doctorate degrees. In addition, Mr. Bowles has Chartered Engineer, Chartered Geologist, and European Geologist designations and has memberships and active association with the Mineralogical Society, the Mineralogical Society of America, and the Irish Association for Economic Geology. Mr. Bowles is a Fellow of the Mineralogical Society, the Geological Society, and the Institution of Mining and Metallurgy. Mr. Bowles retains honorary senior research fellowships with the Geology Department of Manchester University and the Department of Earth Sciences of Kingston University, both located in the United Kingdom. Mr. Bowles has authored

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over fifty scientific research papers during the past 25 years for numerous trade and industry publications worldwide. For the past 14 years, Mr. Bowles has acted as the managing director of Mineral Science Ltd. of Chesham, UK. Mineral Science Ltd. is an international geological and mineralogical consultancy specializing in the assessment of metalliferous minerals in relation to commercial mining operations.

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GARY J. POWERS has been a director of VATL since December 2000. Mr. Powers has worked in the public sector at a senior Canadian governmental level and has private sector experience in project development and business management. His background in the process of government and the needs of business will aid in the course of developing infrastructure and resources. For the past six years, Mr. Powers has worked for Guest Investments Ltd. as a management and education consultant and for Helen Kupper Enterprises, Ltd. as a business manager.

SECTION 16 OF THE EXCHANGE ACT

Section 16(a) of the 1934 Securities Exchange Act, as amended (the "Exchange Act") requires VATL's directors and officers, and the persons who beneficially own more than ten percent of the common stock of VATL, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Copies of all filed reports are required to be furnished to VATL pursuant to Rule 16a-3 promulgated under the Exchange Act. Based solely on the reports received by VATL and on the representations of the reporting persons, VATL believes that these persons have complied with all applicable filing requirements during the fiscal year ended March 31, 2002.

ITEM 10. EXECUTIVE COMPENSATION

COMPENSATION OF OFFICERS AND DIRECTORS

As of fiscal year ended March 31, 2002, VATL accrued since inception approximately \$66,267 in directors' fees and paid none of these fees to its directors as executive compensation. VATL has written off these previously incurred directors' fees of \$66,267; therefore, as of the date of this Annual Report, there are no directors' fees due and owing.

Directors and officers of VATL are reimbursed for any out-of-pocket expenses incurred by them on behalf of VATL. Executive compensation is subject to change concurrent with VATL requirements. Neither Mr. Atkins nor Dr. Bowles nor Mr. Powers is a director or officer of ICI, nor does VATL own of record capital stock of ICI. Of the amounts paid to ICI, Dr. Bowles did not receive any compensation directly or indirectly from ICI. During the fiscal year ended March 31, 2002, Mr. Atkins received approximately \$12,500 from ICI for work conducted relating to the management and administration of VATL.

SUMMARY COMPENSATION TABLE

| Name and Position | | Annual Compensation | | Awards | | Payouts | | |
|-------------------|------|---------------------|-------------|-------------|-----------|--------------|------------|-------------|
| | | \$ Salary | \$ Bonus | \$ Other | \$ RSA | # Options | \$ LTIP | \$ Other |
| | | | | (1) | | | | |
| Grant Atkins | 2000 | 0 | 0 | 6,000 | 0 | 0 | 0 | 0 |
| Pres./Director | 2001 | 0 | 0 | \$30,000 | 0 | 0 | 0 | 0 |
| | 2002 | 0 | 0 | \$12,500 | 0 | 0 | 0 | 0 |

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| | | | | | | | | |
|---------------|------|---|---|----------|---|---|---|---|
| John Bowles | 2000 | 0 | 0 | \$ 1,500 | 0 | 0 | 0 | 0 |
| Director | 2001 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2002 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Herb Ackerman | 2000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2001 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | (1) | | | | |
| Gary Powers | 2001 | 0 | 0 | \$30,000 | 0 | 0 | 0 | 0 |
| | 2002 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

(1) Annual compensation based on fiscal year of April 1st to March 31st and paid according to individual contractual arrangements.

NON-QUALIFIED STOCK OPTION PLAN

On May 1, 2000, the board of directors of VATL adopted the Non-Qualified Stock Option Plan (the "SOP"), which initially provides for the grant of options to purchase an aggregate of 2,000,000 shares of Common Stock at \$0.25 per share. The purpose of the SOP is to make options available to directors, management and significant contractors of VATL in order to encourage them to secure an interest or an increase on reasonable terms of stock ownership in VATL and to remain in the employ of VATL, and to provide them compensation for past services rendered.

The SOP is administered by the board of directors which determines the persons to be granted options under the SOP, the number of shares subject to such options, the exercise price of such option and the option period, and the expiration date, if any, of such options. The exercise of an option may be less than fair market value of the underlying shares of Common Stock. No options granted under the SOP will be transferable by the optionee other than by that provided by the Option Grant Agreement or will or the laws of descent and distribution, and each option will be exercisable during the lifetime of the optionee, only by such optionee.

The exercise price of an option granted pursuant to the SOP may be paid in cash, by the surrender of options, in Common Stock, in other property, including the optionee's promissory note, or by a combination of the above.

During the quarter ended June 30, 2000, the board of directors granted options in the aggregate of 1,950,000 shares at an exercise price of \$0.25 per share to the individuals reflected in the table below. The table has been revised, however, to take into consideration the reverse stock split of four to one. The options are thus exercisable at \$1.00 per share. As of the date of this Annual Report, options have been granted in the aggregate of 487,500 shares. All options granted are exercisable by the respective individual from the date of grant through the date of expiration. No share options have been exercised as of the date of this Annual Report.

Aggregated Options/SAR Exercises and Fiscal Year End Options/SAR Value Table

| Name | Number of Shares Granted | Date of Grant | Exercise Date | Date of Expiration |
|---------------|-----------------------------|---------------|---------------|-----------------------|
| Grant Atkins | 25,000 | 05/01/00 | 05/01/00 | 04/30/10 |
| Herb Ackerman | 25,000 | 05/01/00 | 05/01/00 | 04/30/10 |
| John Bowles | 25,000 | 05/01/00 | 05/01/00 | 04/30/10 |
| Brent Pierce | 125,000 | 05/01/00 | 05/01/00 | 04/30/10 |

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| | | | | |
|--------------------|---------|----------|----------|----------|
| Gary Powers | 25,000 | 05/01/00 | 05/01/00 | 04/30/10 |
| Marcus Johnson | 25,000 | 05/01/00 | 05/01/00 | 04/30/10 |
| Gino Cicci | 25,000 | 05/01/00 | 05/01/00 | 04/30/10 |
| Harold Gooding | 25,000 | 05/01/00 | 05/01/00 | 04/30/10 |
| Tun Resources Ltd. | 125,000 | 05/01/00 | 05/01/00 | 04/30/10 |
| Rudolf Heinz | 62,500 | 06/21/00 | 06/21/00 | 04/30/10 |
| Total | 487,500 | | | |

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ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of the date of this Annual Report, there are 15,213,405 shares of Common Stock issued and outstanding. The following table sets forth the name and address, as of the date of this Annual Report, and the approximate number of shares of common stock owned of record or beneficially by each person who owned of record, or was known by VATL to own beneficially, more than five percent (5%) of VATL's Common Stock, and the name and shareholdings of each officer and director and all officers and directors as a group.

| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Class | Percent of Class |
|----------------|---|----------------------------|------------------|
| | | (1) | |
| Common Stock | Alexander W. Cox 428 - 755 Burrard Street Vancouver, British Columbia Canada V6Z 1X6 | 4,323,300 | 28.42% |
| | | (1) | |
| Common Stock | Newport Capital Corp. P.O. Box W-960 St. Johns, Antigua | 934,975 | 6.16% |
| | | (1) | |
| Common Stock | Pacific Rim Financial, Inc. 60 Market Square P.O. Box 364 Belize City, Belize | 1,133,300 | 7.45% |
| | | (1) | |
| Common Stock | Calista Capital Corp. P.O. Box W-961 St. Johns, Antigua | 916,700 | 6.03% |
| | | (1) | |
| Common Stock | Investor Communications International, Inc. 435 Martin Street Suite 2000 Blaine, Washington 98230 | 1,375,000 | 9.04% |
| | | (2) | |
| Common Stock | All officers and directors as a group (3 persons) | 5,000 | .003% |

(1)

These are restricted shares of Common Stock with the exception: (i) of the 4,323,300 shares held by Alexander W. Cox, 3,000,000 shares are free trading; (ii) of the 1,316,950 shares held by Calista Capital Corp., 400,250 are free trading; and (iii) of the 1,308,006 shares held by Newport Capital Corp., 13,031 are free trading.

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(2)

Includes the assumption of the exercise of options by each option holder pursuant to the terms of the Non-Qualified Stock Option Plan to purchase an aggregate of 75,000 shares of restricted Common Stock at \$0.25 per share.

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ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As of the date of this Annual Report, VATL has not entered into any contractual arrangements with related parties other than those transactions relating to the contractual arrangements with ICI and those resulting primarily from advances made by related parties to VATL and subsequent issuance of notes. Mr. Atkins is a director and the president of VATL, and is a member of the management team provided by ICI. The board of directors of VATL has not adopted or approved any policy regarding possible future transactions with related third parties.

Messrs. Atkins, Bowles and Powers are engaged in other businesses, either individually or through partnerships and corporations in which they may have an interest, hold an office or serve on the boards of directors. The directors of VATL, Messrs. Atkins, Bowles and Powers, have other business interests to which they may devote a major or significant portion of their time. Certain conflicts of interest, therefore, may arise between VATL and its directors. Such conflicts can be resolved through the exercise by Messrs. Atkins, Bowles and Powers of judgment consistent with their fiduciary duties to VATL. Messrs. Atkins, Bowles and Powers intend to resolve such conflicts in the best interests of VATL. Moreover, Messrs. Atkins, Bowles and Powers will devote their time to the affairs of VATL as they deem necessary.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

None.

(b) Reports.

The following Reports on Form 8-K were filed during fiscal year ended March 31, 2002 and to date of this Annual Report.

| Item | Date |
|------|---------------|
| 8-K | April 5, 2001 |
| 8-K | June 6, 2001 |

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VEGA-ATLANTIC CORPORATION

Dated: June 28, 2002

By: /s/ Grant Atkins

Grant Atkins, President

