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VEGA ATLANTIC CORP/CO
Form 10QSB
August 15, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 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

84-1304106

(State or other jurisdiction of incorporation of organization)

(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)

N/A

(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

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

Class _____ Outstanding as of August 10, 2002

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Common Stock, \$.00001 par value 15,213,405

Transitional Small Business Disclosure Format (check one)

Yes No X

PART I. FINANCIAL INFORMATION

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VEGA-ATLANTIC CORPORATION
(AN EXPLORATION STAGE COMPANY)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002
(Unaudited)

CONSOLIDATED BALANCE SHEETS

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INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1

VEGA-ATLANTIC CORPORATION
(An Exploration Stage Company)

CONSOLIDATED BALANCE SHEETS

	June 30, 2002	Ma
	-----	-----
	(Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash	\$ 250	\$
	-----	-----
	\$ 250	\$
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 61,553	\$
Advances from related parties (Note 4)	444,560	
	-----	-----
	506,113	
	-----	-----
STOCKHOLDERS' EQUITY (DEFICIT)		
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, 2002 - 15,213,405) shares issued and outstanding	339	
Additional paid-in capital	9,367,586	9
Deficit accumulated during the exploration stage	(9,873,788)	(9)
	-----	-----
Total stockholders' equity (deficit)	(505,863)	
	-----	-----
	\$ 250	\$
	=====	=====

CONTINGENCIES (Note 1)

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

VEGA-ATLANTIC CORPORATION (An Exploration Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three months ended June 30, 2002 -----
EXPLORATION EXPENSES	
Joint venture acquisition costs	\$ --
Claims staking and exploration	--
Research and development	--

	--

GENERAL AND ADMINISTRATIVE EXPENSES	
Consulting fees	--
Directors' fees	--
Office and general	30,046
Interest expense	9,484
Professional fees	11,560
Stock-based compensation	--
Gain on settlement of debt	--
Gain on sale of joint venture interest	--

	51,090

LOSS BEFORE THE FOLLOWING	(51,090)
Gain on settlement of lawsuit	--
Loss on settlement of convertible promissory notes	--

LOSS FROM CONTINUING OPERATIONS	(51,090)
DISCONTINUED OPERATIONS	
Loss from discontinued operations of Century Manufacturing, Inc.	--

NET LOSS FOR THE PERIOD	\$ (51,090) =====
BASIC LOSS PER SHARE	\$ (0.00)

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WEIGHTED AVERAGE COMMON SHARES OUTSTANDING

=====

15,213,405

=====

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

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

	Three months ended June 30 2002 -----
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss for the period	\$ (51,090)
Adjustments to reconcile net loss to net cash from operating activities:	
- non-cash loss on sale of subsidiary	--
- non-cash gain on sale of joint venture	--
- 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	--
- stock-based compensation	--
- loss on settlement of convertible promissory notes	--
- gain on settlement of debt, net of current period accrual	--
- gain on settlement of lawsuit, net of current period interest accrual	--
- gain on sale of joint venture interest	--
- net changes in working capital items	(27,035)

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	(78,125)

CASH FLOWS FROM FINANCING ACTIVITIES	
Advances from related parties - net	77,179
Interest paid	--
Convertible notes	--
Sale of common stock	--

CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	77,179

CASH FLOWS FROM INVESTING ACTIVITIES	
Mineral property acquisition and exploration	--
Purchase of subsidiaries, net of cash acquired	--
Proceeds from sale of joint venture interest	--

CASH FLOWS USED IN INVESTING ACTIVITIES	--

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INCREASE (DECREASE) IN CASH	(946
CASH, BEGINNING OF PERIOD	1,196
CASH, END OF PERIOD	\$ 250

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

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

JUNE 30, 2002
(Unaudited)

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 June 30, 2002, the Company had a working capital deficiency of \$505,863 and has incurred substantial losses to date and further losses are anticipated in the future. These factors raise substantial doubt 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.

Unaudited Interim Financial Statements

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. They do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there have been no material changes in the information disclosed in the notes to the financial statements for the year ended March 31, 2002 included in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission. The interim unaudited consolidated financial statements should be read in conjunction with those financial statements included in the Form 10-KSB. In the opinion of Management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the three months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending March 31, 2003.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The financial statements have been prepared on a consolidated basis and include the accounts of the Company and its 100% owned subsidiaries, Polar Explorations

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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 (loss) 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 (loss) 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.

VEGA-ATLANTIC CORPORATION
(An Exploration Stage Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

(Unaudited)

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

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.

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

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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.

Comparative figures

Certain of the comparative figures have been restated to conform with the current period's presentation.

NOTE 3: 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 or other compensation for services.

As of March 31, 2002 and June 30, 2002, 487,500 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.

NOTE 4: RELATED PARTY TRANSACTIONS

During the period ended June 30, 2002 the Company incurred managerial, administrative and investor relation services of \$59,550 (2001 - \$60,050) 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 \$3,500 during the period ended June 30, 2002 (2001 - \$3,400). At June 30, 2002 ICI had made net cash advances of \$4,715 (2001 - \$3,317). At June 30, 2002 \$315,393 plus \$30,809 accrued interest is owed to ICI (2001 - \$188,153 plus \$7,749 accrued interest).

In addition, at June 30, 2002 \$92,985 plus \$5,373 accrued interest is owing to certain shareholders for cash advances (2001 - \$65,766). These are unsecured and without any terms of repayment.

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(An Exploration Stage Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

(Unaudited)

NOTE 5: LITIGATION

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.

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.

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 and recorded a loss on impairment of \$990,645 relating to this investment. The outcome of these legal proceedings is presently not determinable.

NOTE 6: INCOME TAXES

As at June 30, 2002 the Company has net operating loss carryforwards of approximately \$1,460,000 which result in deferred tax assets. The carryforwards will expire, if not utilized, between 2008 and 2018. 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.

Statements made in this Form 10-QSB 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,"

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"anticipate," "estimate," "approximate" or "continue," or the negative thereof. The Company intends that such forward-looking statements be subject to the safe harbors for such statements. The Company 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 the Company 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 acquisition and exploration, risks of foreign operation, entry of new and stronger competitors, inadequate capital and unexpected costs. The Company 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.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

GENERAL

Vega-Atlantic Corporation, a Colorado corporation (the "Company"), currently trades on the OTC Bulletin Board under the symbol "VATL" and the Frankfurt Stock Exchange under the symbol "VGA" (WKN: 936303). The Company 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, the Company 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, the Company issued 1,600,000 shares of its restricted common stock to Golden Thunder (400,000 shares after the reverse stock split) and provided approximately \$604,500 of funds to Tun Resources.

During the prior fiscal year, the Company was unable to timely provide the required aggregate amount of \$1,180,000 by February 15, 2001. On February 9, 2001, the Company provided an amended letter of offer to Golden Thunder that outlined an offer to (i) purchase the remaining 20% of Tun Resources; (ii) repurchase all of the Company's 400,000 (post-split) shares of common stock from Golden Thunder; and (iii) request 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 offer (the "Letter Offer").

As of the date of this Quarterly Report, the Letter Offer has been presented to the shareholders of Golden Thunder for their approval and such approval was not received.

On July 8, 2001, the Company filed a Statement of Claim in the Supreme Court of British Columbia naming Golden Thunder Resources Ltd. and Tun Resources Inc. as defendants. See "Part II. Item 1. Legal Proceedings" for further disclosure.

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The Ailaoshan/Xiaoshuijing Gold Project

On May 4, 2000, the Company 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 the Company 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, the Company 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.

Due to the ongoing litigation involving Golden Thunder and Tun Resources, management of the Company at this time does not believe that a definitive agreement will be consummated nor that any other China-based venues will be pursued.

Investment in Other Ventures

As of the date of this Quarterly Report, management seeks to develop a diversified international resources exploration, development and production program. Management intends to focus the Company'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 the Company to diversify the Company'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.

RESULTS OF OPERATION

Three-Month Period Ended June 30, 2002 Compared to Three-Month Period Ended June 30, 2001

The Company's net loss for the three-month period ended June 30, 2002 was approximately \$51,090 compared to a net loss of approximately \$49,317 for the three-month period ended June 30, 2001.

During the three-month periods ended June 30, 2002 and 2001, the Company did not incur any exploration expenses primarily due to the decrease in investment relating to its Chinese joint venture projects.

During the three-month period ended June 30, 2002, the Company recorded general and administrative expenses of approximately \$51,090 compared to general and administrative expenses of approximately \$99,317 incurred during the three-month period ended June 30, 2001 (a decrease of \$48,227). Although the Company actually incurred \$99,317 of general and administrative expenses during the three-month period ended June 30, 2001, such expenses were offset by \$50,000 realized as gain on the sale of Alaskan Explorations Corp. and related Lemachang silver deposit Sino-Foreign joint venture interest, resulting in a net loss of \$49,317. The decrease in general and administrative expenses during the three-month period ended June 30, 2002 compared to the three-month period ended June 30, 2001 was primarily due to a recovery of expenses of \$21,879 and decrease in office and general expenses and in professional fees, which related to the scale and scope of overall business activity during such period.

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During the three-month period ended June 30, 2002, the Company's general and administrative expenses consisted of: (i) \$30,046 in office and general expenses; (ii) \$11,560 in professional fees; and (iii) \$9,484 in interest expense. During the three-month period ended June 30, 2001, the Company's general and administrative expenses consisted of (i) \$61,029 in office and general expenses; (ii) \$23,643 in professional fees; (iii) \$10,145 in interest expense; and (iv) \$4,500 in directors' fees. General and administrative expenses generally include corporate overhead, financial and administrative contracted services, consulting costs and professional fees.

Of the \$51,090 incurred as general and administrative expenses, the Company incurred to Investor Communications International, Inc. ("ICI") approximately (i) \$59,550 for amounts due and owing for managerial, administrative and financial services rendered by ICI; and (ii) \$4,715 for net cash advances made by ICI. This resulted in an aggregate of \$315,393 plus \$30,809 in accrued interest due and owing ICI during the three-month period ended June 30, 2002. One of the directors of the Company is contracted by ICI and is part of the management team provided by ICI to the Company. During the three-month period ended June 30, 2002, Mr. Grant Atkins received from ICI approximately \$3,500 as compensation.

The Company 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, the Company and ICI renewed its consulting services and management agreement for an additional two-year period.

As the Company has not and currently is not in the operational stage of generating revenues, the services provided by ICI decreased during the three-month period ended June 30, 2002 as compared to the same period during 2001. As of the date of this Quarterly Report, such services provided by ICI include not only those services listed above related to exploration, administration, public company operations and maintenance of the Company, but also involve the negotiation and due diligence of the Letter Agreement relating to the Ailaoshan joint venture and other possible joint venture projects. Moreover, ICI is continuously sourcing, identifying, investigating and negotiating new business opportunities to present to the board of directors of the Company. Other services provided by ICI include securing of short-term advance financing and sourcing of private placement funding.

As discussed above, the increase in net loss during the three-month period ended June 30, 2002 as compared to the net loss incurred during the three-month period ended June 30, 2001 is attributable primarily to the gain of \$50,000 on the sale of the joint venture interest realized during the three-month period ended June 30, 2001. The Company's net loss during the three-month period ended June 30, 2002 was approximately (\$51,090) or (\$0.00) per common share compared to a net loss of approximately (\$49,317) or (\$0.00) per common share during the three-month period ended June 30, 2001. The weighted average number of shares outstanding were 15,213,405 for the three-month period ended June 30, 2002 compared to 14,588,405 for the three-month period ended June 30, 2001 (which were restated to take into account the reverse stock split of 4 to 1).

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LIQUIDITY AND CAPITAL RESOURCES

For Three-Month Period Ended June 30, 2002

The Company'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 the Company be unable to continue in operations.

As of the date of this Quarterly Report, there is substantial doubt regarding the Company's ability to continue as a going concern as the Company has not generated sufficient cash flow to fund its business operations and material commitments. The Company's future success and viability, therefore, are dependent upon the Company's ability to successfully develop new business prospects under consideration, joint ventures, and the continuing ability to generate capital financing. Management is optimistic that the Company will be successful in its capital raising efforts; however, there can be no assurance that the Company will be successful in raising additional capital. The failure to raise additional capital may have a material and adverse effect upon the Company 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 Quarterly Report, management believes that the Company 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 June 30, 2002, the Company's current assets were \$250 and its current liabilities were \$506,113. As of June 30, 2002, the current liabilities exceeded current assets by \$505,863. As of fiscal year ended March 31, 2002, the Company'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.

The increase in current liabilities during the three-month period ended June 30, 2002 from fiscal year ended March 31, 2002 was due primarily to an increase in advances payable to related parties.

Stockholders' deficit increased from (\$454,773) for fiscal year ended March 31, 2002 to (\$505,863) for the three-month period ended June 30, 2002.

The Company has not generated positive cash flows from operating activities. For the three-month period ended June 30, 2002, net cash used in operating activities was (\$78,125) compared to \$17,804 of net cash from operating activities for the three-month period June 30, 2001. As noted above, the decrease was comprised of net changes in working capital items of (\$27,035) during the three-month period ended June 30, 2002 compared to net changes in working capital items of \$67,121 for the three-month period ended June 30, 2001.

Net cash flows from financing activities during the three-month period was \$77,179 resulting primarily from advances from related parties compared to net cash flows used in financing activities of (\$17,183) during the three-month period ended June 30, 2001.

Net cash flows from investing activities were \$-0- during the three-month

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periods ended June 30, 2002 and 2001.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Tun Resources Litigation

On July 8, 2001, the Company filed a Statement of Claim in the Supreme Court of British Columbia naming Golden Thunder Resources Ltd. and Tun Resources Inc. as defendants. The Company alleges in its Statement of Claim that certain representations were made by the defendants to the Company as follows: (i) Tun Resources had good and marketable title to its assets; (ii) the consideration paid by the Company 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 the Company upon closing of the Acquisition Agreement. The Company 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 the Company; (ii) the consideration paid by the Company 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 the Company 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. The Company further alleges in its Statement of Claim that (i) the defendants made such representations to the Company in order to induce the Company to enter into the Acquisition Agreement; (ii) the Company 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 the Company loss and damages. The Company 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 the Company 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 the Company.

As of the date of this Quarterly Report, there is a pending settlement agreement between the parties which at a future date may or may not provide for full satisfaction of the claims of the Company. Management intends to aggressively pursue all such legal actions and review further legal remedies against Golden Thunder and Tun Resources.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

No report required.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

No report required.

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

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No report required.

ITEM 5. OTHER INFORMATION

No report required.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibit 99.1 Certification Pursuant to 18 U.S.C. Section 1350.

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: August 12, 2002

By: /s/ Grant Atkins

Grant Atkins, President and Chief
Executive Officer

Dated: August 12, 2002

By: /s/ Herb Ackerman

Herb Ackerman, Secretary