VEGA ATLANTIC CORP/CO
Form 10QSB
February 14, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended December 31, 2001

[ ] 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.)

4600 South Ulster St.
Suite 240
Denver, Colorado 80237
(Address of Principal Executive Offices)

(800) 721-0016
(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 X 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 February 14, 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

ITEM 1. FINANCIAL STATEMENTS

	CONSOLIDATED BALANCE SHEETS	2
	INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS	3
	INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS	4
	NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS	5
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION	10
PART II.	OTHER INFORMATION	
ITEM 1.	LEGAL PROCEEDINGS	16
ITEM 2.	CHANGES IN SECURITIES AND USE OF PROCEEDS	21
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	22
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	22
ITEM 5.	OTHER INFORMATION	22
ITEM 6.	EXHIBITS AND REPORTS ON FORM 8-K	22
SIGNATURES		23

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VEGA-ATLANTIC CORPORATION
(AN EXPLORATION STAGE COMPANY)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001
(Unaudited)

CONSOLIDATED BALANCE SHEETS

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

VEGA-ATLANTIC CORPORATION

(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED BALANCE SHEETS

	December 31, 2001	M
	(Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash	$ 972	$
Accounts receivable	-	
	$ 972	$
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 156,136	$
Advances from related parties (Note 7)	208,318	
Notes payable - Technology sublicense (Notes 4 and 6)	-	
Directors' fees payable (Note 7)	-	
	364,454	1
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, 2001 - 14,588,405) shares issued and outstanding	339	
Additional paid-in capital	9,367,586	9
Deficit accumulated during the exploration stage	(9,731,407)	(10
Total stockholders' equity (deficit)	(363,482)	(1
	$ 972	$

CONTINGENCIES (Note 1)

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

2

VEGA-ATLANTIC CORPORATION
(AN EXPLORATION STAGE COMPANY)
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended December 31, 2001	Three months ended December 31, 2000	Nine months ended December 31, 2001	
EXPLORATION EXPENSES				
Joint venture acquisition costs	$ -	$ 13,050	$ -	$
Claims staking and exploration	-	-	-	
Research and development	-	-	-	
Total exploration expenses	-	13,050	-	
GENERAL AND ADMINISTRATIVE EXPENSES				
Consulting fees	-	-	-	
Directors' fees (Note 7)	(33,000)	3,000	(61,266)	
Office and general	77,962	244,236	194,264	
Interest expense	5,375	9,130	21,131	
Professional fees	13,413	45,969	42,821	
Stock-based compensation	-	-	-	
Gain on sale of joint venture interest	-		(50,000)	
Gain on settlement of lawsuit (Notes 4 and 6)	-	-	(657,066)	
Loss on settlement of convertible promissory notes	-	1,754,917	-	
Total general and administrative expenses	63,750	2,057,252	(510,116)	
INCOME (LOSS) FROM CONTINUING OPERATIONS	(63,750)	(2,070,302)	510,116	(
DISCONTINUED OPERATIONS				
Loss from discontinued operations of Century Manufacturing, Inc.	-	-	-	
NET INCOME (LOSS) FOR THE PERIOD	$ (63,750)	$(2,070,302)	$ 510,116	$(
BASIC INCOME (LOSS) PER SHARE	$ (0.004)	$ (0.298)	$ 0.035	$
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	14,861,503	6,958,322	14,679,768	

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)

	Nine months ended December 31, 2001	Nine months ended December 31, 2000	Dec (ince Dec
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) for the period	$ 510,116	$(4,179,865)	$(9
Adjustments to reconcile net income (loss) to net cash from operating activities:			
- non-cash loss on sale of subsidiary	-	-	1
- 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	-	821,044	1
- stock-based compensation	-	262,247	
- loss on settlement of convertible promissory notes	-	1,754,917	1
- gain on settlement of lawsuit	(657,066)	-	
- net changes in working capital items	148,363	4,830	
CASH FLOWS FROM OPERATING ACTIVITIES	1,413	(1,336,827)	(3
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances from (repayments to) related parties - net	(1,883)	44,661	1
Interest paid	-	(1,433)	
Convertible notes	-	99,500	
Sale of common stock	-	970,000	3
CASH FLOWS FROM FINANCING ACTIVITIES	(1,883)	1,112,728	4
CASH FLOWS FROM INVESTING ACTIVITIES			
Mineral property acquisition and exploration	-	-	
Purchase of subsidiaries, net of cash acquired	-	955	
CASH FLOWS FROM INVESTING ACTIVITIES	-	955	
INCREASE (DECREASE) IN CASH	(470)	(223,144)	
CASH, BEGINNING OF PERIOD	1,442	240,328	

CASH, END OF PERIOD	$ 972	$ 17,184 $

OTHER NON-CASH TRANSACTIONS:
1. In connection with the settlement of the lawsuit described in Note 6, during the nine month period ended December 31, 2001, the Company wrote off its notes payable and accrued interest resulting in a gain of $657,066.
2. The Company issued 1,000,000 shares in settlement of debt of $150,000.

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

4

VEGA-ATLANTIC CORPORATION
(AN EXPLORATION STAGE COMPANY)
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001

(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 with the exception of those interests which are subject to a legal dispute. Refer to Note 3.

At December 31, 2001, the Company had a working capital deficiency of $363,482 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 has been no material changes in the information disclosed in the notes to the financial statements for the year ended March 31, 2001 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 nine months ended December 31, 2001 are not necessarily indicative of the results that may be expected for the year ending March 31, 2002.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements for the period ended December 31, 2001 include the accounts of the Company and its 100% owned subsidiary, Polar Explorations Ltd. incorporated in Belize to act as the joint venture partner in future mineral property acquisitions. This subsidiary has had no operations to date.

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
The Company expenses all mineral property acquisition costs, capital contributions and exploration costs until such time as proven economically recoverable reserves are established.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

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. Because the Company does not have any potentially dilutive securities outstanding, the accompanying presentation is only of 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.

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.

RECENT ACCOUNTING PRONOUNCEMENTS
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.

(Unaudited)

NOTE 3: INTEREST IN MINERAL PROPERTIES (CON'T)

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 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. The amended offer has not been presented to the shareholders of Golden Thunder or the CDNX for approval. Consequently, 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.

LEMACHANG SILVER MINE JOINT VENTURE PROPOSAL: Effective July 26, 2000, the Company, through its 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 meets it's 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 technology. Upon the settlement of the lawsuit described in Note 6, the promissory notes to AuRIC and Geneva totaling $600,000 were cancelled during the quarter as well as $57,066 in accrued interest resulting in a gain of $657,066 from the write-off of these debts.

VEGA-ATLANTIC CORPORATION
(AN EXPLORATION STAGE COMPANY)
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001

(Unaudited)

NOTE 5: 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 December 31, 2001, 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.

NOTE 6: 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 period ended September 30, 2001 a settlement was reached and the parties agreed to have the lawsuit dismissed. As part of the settlement, the promissory notes totaling $600,000 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 to 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 law suit funding agreement between the plaintiffs and Tristar Financial Services, Inc.

NOTE 7: RELATED PARTY TRANSACTIONS

During the period ended December 31, 2001 $9,000 in directors fees were accrued and $70,266 of previously accrued fees were written off to current and former directors. At December 31, 2001, there are no directors fees owing.

(Unaudited)

During the period ended December 31, 2001 the Company incurred managerial, administrative and investor relation services of $194,650 to Investor Communications International, Inc. ("ICI") under a consulting services and management agreement dated April 1, 1999. At December 31, 2001 the Company had made net cash repayments of $5,333 to ICI, issued 1,000,000 common shares for $150,000 in debt, and at December 31, 2001 $164,103 plus $18,034 accrued interest is owing to ICI.

In addition, at December 31, 2001 $23,500 plus $2,681accrued interest is owing to certain shareholders for cash advances. These are unsecured and without any terms of repayment.

NOTE 8: COMMON STOCK

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. See Note 6.

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.

The weighted average number of shares outstanding for the periods ended in 2000 has been restated to reflect the 4:1 share consolidation on December 22, 2000.

NOTE 9: INCOME TAXES

The Company has recorded no tax provision for the period ended December 31, 2001 as it has sufficient loss carryforwards available to offset the income in the period. Also, due to the uncertainty of realization the Company has provided a full valuation allowance against the deferred tax assets resulting from its additional unutilized loss carryforwards.

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," "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"), which 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.

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 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 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 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 Quarterly Report, the Company 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 past fiscal year, the Company has been unable to timely provide the required aggregate amount of $1,180,000 by February 15, 2001.

10

On December 12, 2000 and as amended February 9, 2001, the Company 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 Company's 400,000 (post-split) shares of common stock from Golden Thunder (the "Letter Offer"). The Company 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 CDNX (Canadian Stock Exchange) for approval. On February 9, 2001, the Company 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 Quarterly Report, the Company 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 Quarterly Report, the Letter Offer has not been presented to the shareholders of Golden Thunder for their approval nor to the CDNX for its approval.

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 which were untrue and upon which the Company detrimentally relied thus suffering loss and damages, and that amounts provided to Tun Resources by the Company were refundable debt advances until the Company's funding requirement of providing a total of $1,180,000 to Tun Resources was complete. See "Part II. Item 1. Legal Proceedings" for further disclosure. Accordingly, for accounting purposes effective March 31, 2001 the Company 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, 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.

Management of the Company 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, the Company will not consider the acquisition of the Ailaoshang gold concession probable and any further involvement is subject to funding availability.

The Company has formed Polar Explorations Ltd., a Belize corporation and the wholly-owned subsidiary of the Company ("Polar Explorations"), to act as the joint venture partner on behalf of the Company. 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").

The Company 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, the Company 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 in which the parties agreed to settle in order to diminish the continuous burden, cost and expense of protracted ongoing litigation. See "Part II. Other Information Item 1. Legal Proceedings" for further disclosure.

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

Nine-Month Period Ended December 31, 2001 Compared to Nine-Month Period Ended December 31, 2000

The Company's net income for the nine-month period ended December 31, 2001 was approximately $510,116 compared to a net loss of approximately $4,179,865 for the nine-month period ended December 31, 2000 resulting from the gain on the settlement of the lawsuit. See "Part II. Other Information. Item 1. Legal Proceedings".

During the nine-month period ended December 31, 2001, the Company recorded operating expenses of approximately $258,216, which were offset by recognized gains totaling $768,332, resulting in a recognized income from continuing operations of $510,116. During the nine-month period ended December 31, 2000, the Company recorded operating expenses of $4,179,865 (a decrease of $3,669,749).

During the nine-month period ended December 31, 2001, the Company did not incur any exploration expenses as compared to exploration expenses of $1,105,787 incurred during the nine-month period ended December 31, 2000. The

decrease in exploration expenses during the nine-month period ended December 31, 2001 was primarily due to decreased investment relating to its Chinese joint venture projects as compared to the payments made by the Company during the nine-month period ended December 31, 2000 pertaining to the acquisition costs of Tun Resources and related joint venture capital contributions.

During the nine-month period ended December 31, 2001, the Company incurred general and administrative expenses of $258,216, which primarily consisted of $194,264 as office and general expenses. During the nine-month period ended December 31, 2000, the Company incurred general and administrative expenses of $3,074,078, which consisted primarily of $1,754,917 in loss on settlement of convertible promissory notes, $845,118 in office and general expenses and $262,247 in stock-based compensation. The decrease in administrative expenses during the nine-month period ended December 31, 2001 compared to the nine-month period ended December 31, 2000 was primarily due to a decrease in overhead and administration expenses, which related to the scale and scope of overall business activity during such period, and the recording of the loss on settlement of convertible promissory notes during the nine-month period ended December 31, 2000. Administrative expenses generally include corporate overhead, financial and administrative contracted services, consulting costs and professional fees.

Although the Company actually incurred $258,216 of general and administrative expenses during the nine-month period ended December 31, 2001, such expenses were offset by the recognition of $768,332 resulting from (i) $61,266 decreased directors' fee liability; (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 the nine-month period ended December 31, 2001, these resulted in a recognized income from continuing operations of $510,116.

Of the $258,216 incurred as general and administrative expenses, the Company incurred approximately $194,650 to Investor Communications International, Inc. ("ICI") for amounts due and owing for managerial, administrative and financial services rendered and/or advances made by ICI. During the nine-month period ended December 31, 2001, the Company had made net cash repayments of $5,333 to ICI and issued 1,000,000 shares of restricted common stock for partial settlement of an aggregate principal of $164,103 plus $18,034 in accrued interest due and owing ICI. One of the directors of the Company is contracted by ICI and is part of the management team provided by ICI to the Company. See "Part II. Other Information. Item 2. Changes in Securities and Use of Proceeds".

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 six-month period ended December 31, 2001 as compared to the same period during 2000. 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 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 the Company has divested. Moreover, with commencement of the legal proceedings against Tun Resources and Golden Thunder, and the ongoing and 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 the Company. 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 the nine-month period ended December 31, 2001 as compared to the net loss incurred during the nine-month period ended December 31, 2000 is attributable primarily to the (i) realization of a gain on the settlement of the Lawsuit, and (ii) the decreased exploration expenses and general and administrative expenses incurred during the nine-month period ended December 31, 2001. The Company's net income during the nine-month period ended December 31, 2001 was approximately $510,116 or $0.035) per common share compared to a net loss of approximately ($4,179,865) or ($0.674) per common share during the nine-month period ended December 31, 2000. The weighted average number of diluted shares outstanding were 14,679,768 for the nine-month period ended December 31, 2001 (which have been restated to take into account the reverse stock split of 4 to 1) compared to 6,202,836 for the nine-month period ended December 31, 2000.

Three-Month Period Ended December 31, 2001 Compared to Three-Month Period Ended December 31, 2000

The Company's net loss for the three-month period ended December 31, 2001 was approximately $63,750 compared to a net loss of approximately $2,070,302 for the three-month period ended December 31, 2000. During both three-month periods ended December 31, 2001 and 2000, respectively, the Company recorded no income.

During the three-month period ended December 31, 2001, the Company recorded operating expenses of approximately $63,750. During the three-month period ended December 31, 2000, the Company recorded operating expenses of $2,070,302 (a decrease of $2,006,552).

During the three-month period ended December 31, 2001, the Company did not incur any exploration expenses as compared to exploration expenses of $13,050 incurred during the three-month period ended December 31, 2000. The decrease in exploration expenses during the three-month period ended December 31, 2001 was primarily due to the decreased investment by the Company to Tun Resources of its funding commitments due to the extensions obtained as compared to the payments made by the Company during the three-month period ended December 31, 2000 pertaining to the acquisition costs of Tun Resources and related joint venture capital contributions.

During the three-month period ended December 31, 2001, the Company actually incurred general and administrative expenses of $96,750, which primarily consisted of $77,962 as office and general expenses. During the three-month period ended December 31, 2000, the Company incurred general and

administrative expenses of $2,057,252, which consisted primarily of $1,754,917 in loss on settlement of convertible promissory notes, $244,236 in office, consulting and general expenses and $45,969 in professional fees. The decrease in administrative expenses during the three-month period ended December 31, 2001 as compared to the three-month period ended December 31, 2000 was primarily due to a decrease in overhead, consulting and administration expenses, which related to the decreased scale and scope of overall business activity during such period, and the recording of the loss on settlement of convertible promissory notes during the three-month period ended December 31, 2000.

Although the Company actually incurred $96,750 of general and administrative expenses during the three-month period ended December 31, 2001, such expenses were offset by the recognition of $33,000 resulting from a write-down in directors' fees. During the three-month period ended December 31, 2001, this resulted in a loss from continuing operations of $63,750.

As discussed above, the decrease in net loss during the three-month period ended December 31, 2001 as compared to the three-month period ended December 31, 2000 is attributable primarily to the decreased general and administrative expenses incurred during the three-month period ended December 31, 2001. The Company's net loss during the three-month period ended December 31, 2001 was approximately $63,750 or ($0.004) per common share compared to a net loss of approximately ($2,070,302) or ($0.298) per common share during the three-month period ended December 31, 2000. The weighted average number of diluted shares outstanding were 14,861,503 for the three-month period ended December 31, 2001 (which have been restated to take into account the reverse stock split of 4 to 1) compared to 6,958,322 for the three-month period ended December 31, 2000.

LIQUIDITY AND CAPITAL RESOURCES

For Nine-Month Period Ended December 31, 2001

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 funds 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 December 31, 2001, the Company's current assets were $972 and its current liabilities were $364,454. As of December 31, 2001, the current liabilities exceeded current assets by $363,482. 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.

The decrease in current liabilities in the nine-month period ended December 31, 2001 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 II. Other Information. Item 1. Legal Proceedings".

Stockholders' deficit decreased from ($1,023,597) for fiscal year ended March 31, 2001 to ($363,482) for the nine-month period ended December 31, 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

16

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, 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.

17

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, INCG, IGCO and Brent Pierce for breach of contract against Geneva, breach of contract against INCG and others, defamation against IGCO, INCG, Geneva and others, injunctions against IGCO, INCG, 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 quantifies 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 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

The Company 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 the Company may have under the Sub-License Agreement with Geneva.

18

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.

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 the Company, Goldstate Corporation and IGCO, respectively; (iii) AuRIC would return all stock certificates received from the Company, 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.

19

Results of Settlement

Pursuant to the Assignment Agreement, the Company transferred and conveyed to Geneva the potential claims and causes of action that the Company may 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. The Company, 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 the Company and a promissory note in the principal amount of $250,000, and (ii) Geneva received 500,000 pre-consolidation shares of Common Stock from the Company, 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 Quarterly Report, the Company has received: (i) the share certificate issued to AuRIC representing 1,000,000 shares of Common Stock, which has been returned to the Company and cancelled; (ii) the share certificate issued to Geneva representing 500,000 shares of Common Stock, which has been returned to the Company and cancelled; (iii) the promissory note in the principal amount of $250,000 payable by the Company to AuRIC, which has been cancelled; (iv) the promissory note in the principal amount of $250,000 payable by the Company to Geneva, which has been cancelled; and (v) the promissory note

in the principal amount of $100,000 payable by the Company 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, the Company and respective shareholders.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

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 the Company 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, the board of directors of the Company approved and authorized the execution of a settlement agreement between the Company and ICI (the "Settlement Agreement"). Pursuant to the terms of the Settlement Agreement, the Company 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.

As of the date of this Quarterly 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 Quarterly 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 the Company to own beneficially, more than five percent (5%) of the Company'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
Common Stock	Alexander W. Cox	4,323,300	28.42%

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

21

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

No report required.

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

No report required.

ITEM 5. OTHER INFORMATION

No report required.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

No report required.

22

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: February 14, 2002

By: /s/ Grant Atkins

Grant Atkins, President

Dated: February 14, 2002

By: /s/ Herb Ackerman

Herb Ackerman, Secretary