KING RESOURCES INC
Form 10QSB
March 13, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the quarterly period ended: January 31, 2001

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

Commission File Number: 2-99565

KING RESOURCES, INC
(Exact name of registrant as specified in its charter)

Delaware	13-3784149
(State or other jurisdiction of incorporation or organization)	(IRS Employer identification No.)

2301 14th Street, Suite 900
Gulfport, Mississippi 39501

(Address of principal executive offices, including zip code)

(228) 867-6667
(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Name of Each Exchange
Title of Each Class on which Registered

Common Stock, $.001 par value
OTC / ELECTRONIC BULLETIN BOARD

Indicate by check mark whether the registrant (i) has 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 (ii) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

As of March 15, 2001, there were 34,939,804 shares of Common Stock outstanding.

KING RESOURCES, INC & SUBSIDIARY
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FOR THE QUARTER ENDED JANUARY 31, 2001

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KING RESOURCES, INC. & SUBSIDIARY

CONSOLIDATED BALANCE SHEET

	January 31 2001	Oc
CURRENT ASSETS		
Cash	$ 211	$
Total current assets	211	
PROPERTY AND EQUIPMENT, net of accumulated depreciation	15,831	
OTHER ASSETS		
Organization cost - less amortization of $5,510	103	
	$ 16,145	$
CURRENT LIABILITIES		
Payroll taxes	$ 3,101	$
Notes payable	500,000	
Accrued interest on notes	75,537	
Other current liabilities	50,978	

Total current liabilities	629,616	
SHAREHOLDERS' (DEFICIT)		
Preferred stock - $1.00 par value; 2,000,000 shares authorized; none issued and outstanding		
Common stock - $.001 par value; 100,000,000 shares authorized; 34,939,804 shares issued and outstanding	34,940	
Additional paid-in capital	16,097,129	16
Accumulated (deficit)	(16,745,540)	(16
Total shareholders' (deficit)	(613,471)	
	$ 16,145	$

See accompanying notes and accountants' review report

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KING RESOURCES, INC. & SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS

	Three months ended	
	January 31 2001	Ja
OIL AND GAS REVENUES	-	$
COST AND EXPENSES		
Lease Operating Expenses	-	
Depreciation, amortization	$ 2,805	
General and administrative	121	
Total cost and expenses	2,926	
(LOSS) FROM OPERATIONS	(2,926)	
OTHER INCOME (EXPENSE)		
Interest income	7	
Dividend income	1,226	
Interest expense	(14,152)	
	(12,919)	
NET (LOSS)	$ (15,845)	$
NET LOSS PER COMMON SHARE AND COMMON SHARE EQUIVALENT SHARE-BASED DILUTED	$ (0.000)	$
Weighted Average Common and Common Equivalent Shares	34,939,804	3

See accompanying notes and accountants' review report

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KING RESOURCES, INC. & SUBSIDIARY

CONSOLIDATED STATEMENT OF SHAREHOLDERS' (DEFICIT)
Three months ended January 31, 2001

	Shares	Common Stock Amount	Additional Paid-In Capital	A
BALANCES, October 31, 2000 (deficit)	34,939,804	$ 34,940	$16,097,129	$ (
NET (LOSS)	-	-	-	
BALANCES, January 31, 2001 (deficit)	34,939,804	$ 34,940	$16,097,129	$ (

See accompanying notes and accountants' review report

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KING RESOURCES, INC. & SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

	Three m January 31 2001
CASH FLOWS FROM OPERATING ACTIVITIES	
Net (loss)	$ (15,845)
Adjustments to reconcile net (loss) to net cash used in operating activities:	
Depletion, depreciation, amortization and provision for impairment	2,805
Changes in operating assets and liabilities:	
Other current liabilities	12,516
Other long term-liabilities	
NET CASH (USED) IN OPERATING ACTIVITIES	(524)
(DECREASE) IN CASH AND CASH EQUIVALENTS	(524)
CASH AND CASH EQUIVALENTS, beginning of period	735
CASH AND CASH EQUIVALENTS, end of period	$ 211

See accompanying notes and accountants' review report

Shareholders
King Resources, Inc. & Subsidiary
Gulfport, Mississippi

We have reviewed the accompanying consolidated balance sheet of King Resources, Inc. & Subsidiary (formerly ARXA International Energy, Inc.) as of January 31, 2001 and the related consolidated statements of operations, statement of shareholders' (deficit) and cash flows for the three months then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements are the representation of the management of King Resources, Inc.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

As discussed in Note B to the consolidated financial statements the Company has a net (loss) of ($15,845) and negative cash flow from operations of ($524) for the three months ended January 31, 2001 and had an accumulated (deficit) of ($16,745,540) at that date, which raises substantial doubt about its ability to continue as a going concern. The Company is currently seeking outside sources of financing to fund its development efforts. Should the Company be unable to access such financing, it will have to materially curtail its development and operating activities. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Gibbons Hall, L.L.C.

/s/ Gene Gibbons

March 5, 2001

KING RESOURCES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2001

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization - ARXA International Energy, Inc. ("ARXA" or "the Company"), was incorporated in Delaware and has engaged in oil and gas exploration and development in Utah, Louisiana and Texas. Effective December 1, 2000, the company changed its' name to King Resources, Inc. from ARXA International Energy, Inc. ARXA USA, Inc., a wholly owned subsidiary, was incorporated in Delaware. All significant intercompany accounts and transactions have been eliminated in consolidation.

Oil and Gas Revenues - The Company recognizes oil and gas revenues as the oil or gas is produced and sold. As a result, the Company accrues revenue relating to production for which the Company has not received payment.

Oil and Gas Property Held for Sale - Oil and gas property held for sale is carried at the lower of cost or market.

Oil and Gas Property - The Company follows the full-cost method of accounting for oil and gas property. Under the full-cost method, all costs associated with property acquisition, exploration, and development activities are capitalized into a "full-cost pool". Capitalized costs include lease acquisitions, geological and geophysical work, delay rentals, costs of drilling, completing and equipping successful and unsuccessful oil and gas wells and directly related costs. Gains or losses are normally not recognized on the sale or other disposition of oil and gas properties.

The capitalized costs of oil and gas properties, plus estimated future development costs relating to proved reserves, are amortized on a unit-of-production method over the estimated productive life of the proved oil and gas reserves. There were no capitalized costs at January 31, 2001.

Capitalized oil and gas property costs, less accumulated amortization and related deferred income taxes, are limited to an amount (the ceiling limitation) equal to the present value of estimated future net revenues from the projected production of proved oil and gas reserves, calculated at prices in effect as of the balance sheet date (with consideration of price changes only to the extent provided by contractual arrangements) at a discount factor of 10%, less the income tax effects related to differences between the book and tax basis of the properties.

Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. The actual results could differ from those estimates.

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KING RESOURCES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2001

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

The Company's financial statements are based on a number of significant estimates including oil and gas reserve quantities which are the basis for the calculation of depreciation, depletion and impairment of oil and gas properties. The Company's reserve estimates are determined by an independent petroleum engineering firm. However, management emphasizes that reserve estimates are inherently imprecise and that estimates of more recent discoveries and reserves associated with non-producing properties are more imprecise than those for producing properties with long production histories. The company owned no oil and gas properties at January 31, 2001. Accordingly, the Company's estimates are expected to change as future information becomes available.

Other Property and Equipment - Depreciation of property and equipment, other than oil and gas properties, is provided generally on the straight-line basis over the estimated useful lives of the assets as follows:

Furniture and fixtures	3 - 7 years
Equipment	5 years

Ordinary maintenance and repairs are charged to income, and expenditures which extend the physical or economic life of the assets are capitalized. Gains or losses on disposition of assets other than oil and gas properties and equipment are recognized in income, and the related assets and accumulated depreciation accounts are adjusted accordingly.

Other Non-Current Assets - Other non-current assets include organization costs, which are being amortized over five years.

Income Taxes - The Company provides for income taxes on the liability method. The liability method requires an asset and liability approach in the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of the Company's assets and liabilities.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Company considers cash equivalents to include all cash items, such as time deposits and short-term investments that mature in three months or less.

Concentrations of Credit Risk - Financial instruments which potentially expose the Company to concentrations of credit risk consist primarily of oil and gas receivables. Substantially all of the Company's receivables were due from the sale of oil and gas arising from production on properties located in Texas and Louisiana. Although the Company is directly affected by the well-being of the oil and gas production industry, management does not believe a significant credit risk existed at January 31, 2001. There were no receivables at January 31, 2001.

At times, the Company maintains deposits in banks which exceed the amount of federal deposit insurance available. Management believes the possibility of loss on these deposits is minimal.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Earnings per share - The Company adopted SFAS No. 128, Earnings Per Share (EPS), which was issued in February 1997, which requires presentation of both basic and diluted EPS on the face of the income statement for all periods presented. Basic EPS is computed by dividing net income available to common shareholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted EPS is computed using the weighted-average number of common and potential common shares outstanding during the period. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options. There were no dilutive potential common shares outstanding during the periods encompassed by these financial statements.

NOTE B - GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company had a net (loss) of

($15,845) and negative cash flow from operations of ($524) for the three months ended January 31, 2001 and had an accumulated (deficit) of ($16,745,540) at that date, which raises substantial doubt about its ability to continue as a going concern.

The Company has targeted several acquisition opportunities and is aggressively seeking financial sources to assist with the financing.

NOTE C - ACCOUNTS RECEIVABLE

There were no receivables at January 31, 2001.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment at January 31, 2001 consists of the following:

Furniture and fixtures	$ 141,754
Equipment	750
	142,504
Less accumulated depreciation	(126,673)
	$ 15,831

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KING RESOURCES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2001

NOTE E - NOTES PAYABLE

On December 31, 1999, ARXA executed a Promissory Note in he amount of $200,000 together with interest at 10% per annum on the unpaid balance to Mark Trivette and a Promissory Note of $300,000 to Kenneth A. and Lynn R. Hubbard together with interest at the rate of 10% per annum on the unpaid balance. These notes matured on September 1, 2000, but have not been satisfied. The Company is continuing to accrue interest on these notes.

NOTE F - INCOME TAXES

The Company had net operating loss carryforwards (NOL's) for income tax reporting purposes of approximately $14,859,055 at October 31, 2000. If not utilized, these NOL's will begin expiring in 2019.

NOTE G - COMMITMENTS AND CONTINGENCIES

Commitments - In August 1998, the Company signed a non-cancelable operating lease agreement that provides for monthly payments ranging from $7,524 to $8,495 for 60 months. The Company canceled the lease during the year ended October 31, 1999 and has retained an attorney to represent the Company. On October 15, 1999, Radler Enterprises Texas, Inc. filed suit against the Company for actual damages for the unpaid lease payments for the term of the lease of approximately $390,275 plus attorney fees and court costs.

Environmental Contingencies - The Company's activities are subject to existing federal and state laws and regulations governing environmental quality and pollution control. It is impossible to predict the impact of environmental legislation and regulations on operations in the future, although compliance may necessitate significant capital outlays, that would materially affect earning power or cause other material changes. Penalties may also be assessed to the Company for any pollution caused by the Company's operations and the Department of Interior is authorized to suspend any operation which threatens immediate or serious harm to life, property or environment, which suspension may remain in effect until the damage has ceased. This regulatory burden on the oil and gas industry increases the cost of doing business and consequently affects the Company's profitability. It may be anticipated that state and local environmental laws and regulations will have an increasing impact on oil and gas exploration and operations.

The Company has never been fined or incurred liability for pollution or other environmental damage in connection with its operations.

KING RESOURCES, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2001

NOTE H - STOCKHOLDERS' (DEFICIT)

The Company issued warrants to acquire 3,297,000 (pre-split), 659,400 (post-split) shares of its common stock as part of an acquisition transaction with Phoenix Energy Resources, Inc.(Phoenix).

The warrants are exercisable at $2.00 (pre-split) $10.00 (post-split) per share. These warrants expired without being exercised on August 9, 2000.

On August 21, 1998, the Company issued 57,700 warrants to certain Arxa (King Resources, Inc.) shareholders to purchase the Company's common stock at $1.25. These warrants expired on August 31, 2000, without being exercised.

Prior to the merger transaction with Phoenix, the Company issued 405,000 warrants to purchase the Company's common stock at $10.00. These warrants expired on August 9, 2000 without being exercised.

In addition, Phoenix granted options to employees and directors to acquire 147,753 shares of Phoenix's common stock and an option to an individual to acquire 6,146 shares of its common stock. The options, which expire on September 11, 2007, have an exercise price of $12.50 per share. The options issued to employees to acquire 110,877 shares of Phoenix's common stock are exercisable in equal amounts on September 12, 1998, 1999 and 2000. The options issued to directors, and to the individual mentioned above, are currently exercisable. These options were not converted to options to acquire common stock of the Company.

The Company issued stock to consultants during the year ended October 31, 1999 in exchange for their consulting services. The value of their services was $154,524. They were issued 309,400 shares of Company common stock.

Gulfport Oil and Gas, Inc. received 23,598,482 shares of common stock in exchange for oil and gas leases in Pelahatchie valued at $9,974,240 based on an independent appraisers report. These leases expired during the year ended October 31, 2000 due to non-performance.

NOTE I - STOCK OPTION PLAN

The Company has a stock option plan under which options to purchase a maximum of 200,000 shares of common stock may be issued to employees, consultants and non-employee directors of the Company. The stock option plan provides both for the grant of options intended to qualify as "incentive stock options" under the Internal Revenue Code of 1986, as amended, as well as options that do not so qualify. As of October 31, 2000, no options had been granted under the Plan.

With respect to incentive stock options, no option may be granted more than ten years after the effective date of the stock option plan or exercised more than ten years after the date of grant (five years if the optionee owns more than 10% of the common stock of the Company at the date of grant). Additionally, with regard to incentive stock options, the exercise price of the option may not be less than 100% of the fair market value of the common stock at the date of grant (110% if the optionee owns more than 10% of the common stock of the Company). Subject to certain limited exceptions, options may not be exercised unless, at the time of exercise, the optionee is in the service of the Company.

NOTE I - STOCK OPTION PLAN - continued

Non-qualified options granted under the plan may not have an exercise price less than 85% of the fair market value of the Company's common stock on the date of grant.

On July 27, 1998 the Company authorized the issuance of warrants to management and non-employee directors to purchase 1,000,000 shares of common stock at $.25 per share. 50% of the warrants are to be exercisable when the Company's stock price reaches $6.25 per share, 25% when the price reaches

$7.50 per share, and 25% when the stock price reaches $8.75 per share. Should the Company declare a stock dividend the number of shares will go up and the prices will go down proportionately. These warrants have not been issued as of January 31, 2001. The pro forma effect of the 1,000,000 shares is shown below in this footnote.

In October 1995, the Financial Accounting Standards Board issued a new statement titled "Accounting for Stock-Based Compensation" (SFAS 123). SFAS 123 encourages, but does not require, companies to recognize compensation expense for grants of stock, stock options, and other equity instruments to employees based on fair value. Fair value is generally determined under an option pricing model using the criteria set forth in SFAS 123.

The Company applies APB Opinion 25, Accounting of Stock Issued to Employees, and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its fixed stock option plans.

Had compensation expense for the Company's stock based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method prescribed by SFAS 123, the Company's net loss and loss per common share would have been increased to the pro forma amounts indicated below:

Net loss-as reported	(15,845)
Net loss-Pro forma	(1,798,245)

Net loss per common share-as reported	$	(0.00045)
Net loss per common share-Pro forma	$	(0.0500)

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free rate of 8%; volatility of 198%, no assumed dividend yield; and expected life of one year.

NOTE J - SUPPLEMENTAL CASH FLOW INFORMATION

The Company paid no interest during the three months ended January 31, 2001.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A. RESULTS OF OPERATIONS

Oil and gas revenues for the three months ended January 31, 2001 were $-0-, which is a $12,321 decrease from the $12,321 for the three months ended January 31, 2000 and is primarily attributed to the slow down of production. Lease operating expense, which includes workover costs, decreased from $6,886 for the three months ended January 31, 2000 to $-0- for the three months ended January 31, 2001, a decrease of $6,886. The decrease is primarily due to the write off of unproductive wells. General and administrative costs decreased from $108,105 for the three months ended January 31, 2000 to $121 for the three months ended January 31, 2001. The decrease of $107,984, primarily consists of a decrease in payroll and office overhead expenses.

B. LIQUIDITY AND CAPITAL RESOURCES

Net cash flow from operating activities was a negative $524 for the three months ended January 31, 2001 as compared to a negative of $95,088 for the three months ended January 31, 2000.

The principle use of cash for the three months ended January 31, 2001 was from a $2,069 decreased in accounts payable.

At January 31, 2001, the Company's current assets of $211 were exceeded by current liabilities of $629,616 by $631,474. The Company had a net loss of $15,845 and negative cash flow from operations of $524 for the quarterly period ended January 31, 2001 and had an accumulated deficit of $16,745,540 at that date, which raises substantial doubt about the Company's ability to continue as a going concern. The Company is continuing to target several acquisition opportunities and is aggressively seeking financial sources to assist with the financing.

Gulfport, in consideration of ARXA issuing Promissory Notes of $200,000 and $300,000 respectfully, has transferred to ARXA an additional five percent (5%) working interest in certain proved undeveloped, non-producing oil and gas reserves in the Pelahatchie Field, Rankin County, Mississippi. The working interest transferred by Gulfport to ARXA has a value in excess of $2,500,000. After this transaction, ARXA will own a thirty percent (30%) working interest in certain proved, undeveloped, non-producing oil and gas reserves in the Pelahatchie Field, Rankin County, Mississippi.

The Company notes that there is not sufficient cash flow from operations to continue to operate the business for the next fiscal quarter.

C. MANAGEMENT'S RESPONSE AND PLAN OF OPERATIONS

Under-capitalization continues to be the most serious problem facing the Company.

To correct this problem the Company has acquired the rights to several high potential oil and gas development prospects which would provide the justification for the Company's planned additional Public Offering which will now proceed as rapidly as possible. It is the intent of the Company to apply for membership on the American Exchange simultaneously with the offering.

The Company believes that a listing on a major stock exchange in preference to the Bulletin Board will open opportunities for acquisitions with stock and cash. The Company is confident that, with the offering completed, it will qualify for the AMEX.

PART II - OTHER INFORMATION

ITEM I. LEGAL PROCEEDINGS

King is not engaged in any pending legal proceedings nor are any of its properties subject to any legal proceedings except for the following discussion. King is further not aware of any legal proceedings pending or threatened against its officers and/or directors in their capacity as corporate officers or directions of King except for the following discussion.

1. On October 15, 1999, Radler Enterprises Texas, Inc., filed suit against ARXA now King and Craig Ford in the 55th Judicial District for the District Court of Harris County, State of Texas. The lawsuit was on a Lease Agreement executed on August 19, 1998 by Craig Ford as President of ARXA. The Lease Agreement was not approved by the Board of Directors of ARXA. The Plaintiff Radler Enterprises Texas, Inc. is suing for actual damages for the unpaid lease payments for the term of the lease of approximately $390,275 plus attorney fees and court costs. The plaintiff Radler on July 10, 2000, amended its complaint to add as additional defendants, Norris R. Harris and Jack R. Durland, Jr., and requested damages in the same amount as sought against ARXA and Ford. On or about January 18, 2001, the attorneys for King, Mr. Harris, and Mr. Durland entered into a Agreed Interlocutory Judgment against King in the amount of $290,000.00 plus interest thereon at the rate of 10 percent (10%) per annum, and judgment against the defendants Norris R. Harris and Jack R. Durland, Jr., jointly and severely, in the amount of $40,000.00 plus interest thereon at the rate of ten percent (10%) per annum. As of March 13, 2001, Mr. Durland and Mr. Harris have paid $5,000.00 on this judgment. The balance of $35,000.00 is to be paid quarterly commencing on March 15, 2001. In reference to the Agreed Interlocutory Judgment, King has not been furnished by its attorneys a filed copy of the Judgment. King does not know whether the court has considered the Agreed Interrogatory Judgment and executed the same.

2. Coastal Oil & Gas Corporation filed suit against ARXA in the 33rd Judicial District for the District of Harris County, State of Texas, and obtained a judgment in the amount of $14,028.01 plus attorney fees and costs in approximately June of 2000. ARXA is in the process of attempting a settlement of this lawsuit and judgment.

KING RESOURCES, INC
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KING RESOURCES, INC
(Registrant)

Date: 3-15-01 Norris R. Harris

/s/ Norris R. Harris

President

Date: 3-15-01 Jack R. Durland, Jr.

/s/ Jack R. Durland, Jr.

Vice President and CFO

THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM JANUARY 31, 2001 FORM 10-Q FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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