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KING RESOURCES INC  
Form 10KSB  
January 18, 2001

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-KSB

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

For the Fiscal Year Ended October 31, 2000

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

COMMISSION FILE NUMBER: 2-99565

ARXA INTERNATIONAL ENERGY, INC.

(Exact name of registrant as specified in its charter)

Delaware 13-3784149  
(State or other jurisdiction of (IRS Employer identification No.)  
incorporation or organization)  
2301 14/th/ Street, Suite 900  
Gulfport, Mississippi 39501

(Address of principal executive offices, including zip code)

(228) 864-6667

(Registrant's telephone number, including area code)

SECURITIES REGISTERED UNDER SECTION 12(g) OF THE EXCHANGE ACT:

COMMON STOCK, \$.001 par value

Title of Class

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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Registrant's revenues for the fiscal year ended October 31, 2000 were \$12,321. The aggregate market value of Common Stock held by non-affiliates of the registrant at January 15, 2001, based upon the last reported sales price on OTC Electronic Bulletin Board, was \$5,415,670. As of January 15, 2001, there were 34,939,804 shares of Common Stock outstanding.

This report includes "forward-looking statements" within the meaning of Section

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21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact included in this report regarding the Company's financial position, estimated quantities and net present values of reserves, business strategy, plans and objectives for future operations and covenant compliance, are forward-looking statements. Although the Company believes that the assumptions upon which such forward-looking statements are based are reasonable, it can give no assurances that such assumptions will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations ("Cautionary Statements") are discussed in this report. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified by the Cautionary Statements.

Transitional Small Business Disclosure Format (check one): Yes  No

ARXA INTERNATIONAL ENERGY, INC.

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## PART I

### ITEM 1. BUSINESS

#### INTRODUCTION

ARXA International Energy, Inc. is an independent oil and gas company engaged in the acquisition, exploration, development and production of oil and gas properties in the United States. Formerly named Major League Enterprises, Inc., the Company was redomiciled as a Delaware Corporation in 1995 and commenced operations during 1996. The Company's corporate headquarters are located at 2301 14/th/ Street, Suite 900, Gulfport, Mississippi 39501.

On October 27, 1997, ARXA International Energy, Inc. ("ARXA", the "Company" or "Registrant") purchased substantially all of the assets of Phoenix Energy Group, Inc. ("Phoenix") in exchange for 12,786,310 pre-split shares of ARXA's Common Stock, which, following the transaction, represented approximately 63% of the then total issued and outstanding pre-split shares of ARXA's Common Stock of 20,377,194, which resulted in a change in control of ARXA.

Because Phoenix obtained a controlling interest in ARXA, the transaction was accounted for as a "reverse acquisition". Therefore, for financial statement purposes, Phoenix is considered the acquiror and ARXA the acquiree. Accordingly, the consolidated financial statements of ARXA, now reflect Phoenix's historical operations and cost basis since its inception and the net acquisition value of ARXA on October 27, 1997, accounted for under the purchase method of accounting.

Phoenix Energy Group, Inc. was incorporated as a Texas corporation on March 14, 1996. Mr. L. Craig Ford, then President and CEO of Phoenix had established Phoenix to take over the management and ownership of two producing gas fields in Brooks County, Texas.

At the time of the "reverse acquisition" the Company had a fiscal year ending January 31 while Phoenix Energy Group, Inc. had a fiscal year ending December 31. On January 8, 1998, to resolve the discrepancy on a cost-effective basis, the Board of Directors voted to change ARXA's fiscal year end from January 31 to October 31, effective as of October 31, 1997.

Organization - ARXA is a Delaware corporation with its principal place of business in Gulfport, MS. ARXA is engaged in oil and gas exploration, development, and operations in Louisiana, Mississippi, and Texas. ARXA USA, Inc., is a Delaware corporation and wholly owned subsidiary of ARXA. All significant interconnecting accounts and transactions have been eliminated in consolidation. On October 27, 1997, ARXA acquired substantially all of the assets and certain limited liabilities of Phoenix Energy Group, Inc., a Texas Corporation ("Phoenix"). Phoenix from the sale of its assets acquired approximately sixty-three (63%) of the issued and outstanding common stock of ARXA. Phoenix was the controlling stockholder in ARXA during the period October 27, 1997 to May 7, 1999. Phoenix is a separate corporation controlled by its stockholders, and is not controlled by ARXA.

On May 7, 1999, ARXA sold 6,000,000 shares of its Common Stock to Gulfport Oil & Gas Inc. ("Gulfport"), a Delaware Corporation. Gulfport is a private company, and on May 7, 1999, was the owner of approximately fifty-three and four tenths percent (53.4%) of the outstanding 11,241,322 shares of ARXA and was controlling shareholder of ARXA. Norris R. Harris is Chairman and CEO of Gulfport Oil & Gas,

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Inc. Phoenix granted to Norris R. Harris, President of Gulfport, an irrevocable stock proxy on 2,557,262 shares of common stock of ARXA owned by Phoenix. The stock proxy is for a period of one year from May 5, 1999. On May 5, 1999, Phoenix owned approximately twenty-three percent (23%) of the common stock of ARXA.

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On May 25, 1999, ARXA acquired from Gulfport a twenty-five percent (25%) working interest in certain proved undeveloped, non-producing oil and gas reserves in the Pelahatchie field, Rankin County, State of Mississippi. The acquisition of the oil and gas properties by ARXA was based upon a petroleum engineer's appraisal report on the Pelahatchie field which estimated proved undeveloped oil and gas reserves for three development wells. The acquisition by ARXA from Gulfport was based upon proved undeveloped non-producing oil and gas reserves discounted at twenty-five percent. The total dollar value agreed to by ARXA and Gulfport as to a twenty-five percent working interest in three development wells in the Pelahatchie field was \$13,576,532. Under the agreement between ARXA and Gulfport, ARXA paid for the acquisition of the working interest in the Pelahatchie field as follows: (1) Assigned to Gulfport the Promissory note of Gulfport payable to ARXA in the amount of \$600,000.00 principal and accrued interest of \$2,292.15 for a total of \$602,292.15; (2) Assigned to Gulfport 15,000,000 shares of common stock in ARXA at \$.20 per share or a total of \$3,000,000.00 as agreed to in Agreement with Gulfport dated April 28, 1999; and (3) Assigned to Gulfport 8,598,482 shares of ARXA based upon \$1.16 per share which was the closing stock price of ARXA on May 25, 1999, or a total of \$9,974,239.85.

ARXA, after completing the acquisition of the twenty-five percent working interest in the Pelahatchie field, has issued and outstanding stock of 34,839,804 shares. After the acquisition, Gulfport and its investors, own approximately 29,598,482 shares of common stock in ARXA, which represents eighty five percent (85%) of the issued and outstanding common stock of ARXA.

### REVERSE STOCK SPLIT

Effective October 26, 1998, ARXA declared a one to five reverse common stock split. Under the terms of the reverse stock split, one new, post-split share was issued for five pre-split shares, with fractional shares rounded up to a full share. Accordingly, the financial statements have been restated to reflect this reverse stock split for all periods presented.

### CERTAIN DEFINITIONS

As used herein, the following terms have the specific meanings set out:

Bbl	=	barrel of oil
	=	
MBbl	=	thousand barrels of oil
	=	
Mcf	=	thousand cubic feet of gas
	=	
MMcf	=	million cubic feet of gas
	=	
Mcfe	=	thousand cubic feet of gas equivalent
	=	
Mmcfe	=	million cubic feet of gas equivalent

Natural gas volumes are converted to barrels of oil equivalent using the ratio of 6.0 Mcf of natural gas to 1 barrel of crude oil. Unless otherwise indicated, natural gas volumes are stated at the official temperature and pressure basis of

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the area in which the reserves are located.

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### ITEM 2. PROPERTIES

#### SALE OF PROPERTIES

In June 1998, the Company sold its entire interest in the three well producing Flowella Field to a third party for net sale proceeds of \$760,693. Also, in June 1998, the Company sold its entire interest in the three well producing W.E.Colson Field to a third party for net sale proceeds of \$40,036. In January 1998, the Company sold its entire interest in the 11 well producing West Sandy Creek property to a third party for net sale proceeds of \$48,526.

#### OIL & GAS PROPERTIES - A BRIEF DESCRIPTION

As of October 31, 2000 the Company does not operate any oil and gas properties. The Company owns the following oil and gas properties, however the Company's engineers have estimated their future revenues to be non-economic and therefore the Company has written their value off of the Balance Sheet and does not provide a reserve report on future value of these properties. The Company is in the process of negotiations for the acquisition of 160,000 miles of seismic data. Once this acquisition is completed in the first quarter of 2001, the Company will be in a position to propose a new drilling program to enhance the Company's future values.

West Lavaca River - The Company has a 2-3% interest in approximately 17,500 acres in Lavaca County, Texas. Moose Oil and Gas, the operator, using 3D seismic data are developing the area. The productive formations are the Miocene and Frio. The prospective formations include Yegua, Cook Mountain and Wilcox. The Company's interest is currently for sale.

West Hackberry - The Company has a 10% interest in two leases totaling 152 acres in Cameron Parish, Louisiana. Two wells are completed, shut-in and waiting on gas pipeline connections. Two other wells are being evaluated for remedial work. The estimated date of completion of the gas gathering pipeline and installation of surface equipment is February 1, 2001. At that date the wells will be put on production.

Pelahatchie - On May 25, 1999, ARXA acquired a twenty-five percent (25%) working interest from Gulfport in certain proved undeveloped, non-producing oil and gas reserves below twelve thousand feet in the Pelahatchie Field, Rankin County, State of Mississippi. The acquisition of the oil and gas properties by ARXA was based on a petroleum engineer's appraisal report on the Pelahatchie Field, which estimated proved undeveloped, non-producing oil and gas reserves for three development wells. As of October 31, 1999, the estimated reserves for the three development wells is 12.5 Million barrels of oil and 25 BCF of gas to 100%. The acquisition price was based on proved undeveloped, non-producing oil and

Hawkins Ranch - On November 1, 1999, ARXA announced that a newly drilled well, the Hawkins Ranch No. 1, in Matagorda County, Texas, tested at a daily rate of 1,423 MCF of gas with a flowing tubing pressure of 1,885 psig through a 11/64-inch choke from perforations 6,543 to 6,553 feet. At least three additional wells are planned to be drilled on the Lewis / Hawkins Ranch in 2000. ARXA has a twenty-five percent working interest back in after payout of the Lewis / Hawkins Ranch Project costs.

The following tables set forth estimated net proved oil and gas reserves of the Company and the present value of estimated future pretax net cash flows related to such reserves as of October 31, 1998, 1999 and 2000. Additional production

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history and engineering studies are required to appraise ARXA's interests in other projects. The present value of estimated future net revenues before income taxes was prepared using constant prices as of the calculation date, discounted at 10% per annum.

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	Proved Reserves	
	(Dollars in thousands)	
	October 31, 1998	
	Developed	Undeveloped
Oil and condensate (MBbls)	24	15
Gas (MMcf)	1,057	1,877
Present value of estimated future Net revenues before income taxes	\$ 1,379	\$ 854

The present value of estimated future pretax net cash flows were determined by using current average prices of \$11.50 per Bbl of oil and \$1.73 per Mcf of gas as of October 31, 1998

	Proved Reserves		
	(Dollars in thousands)		
	October 31, 1999		
	Developed	Undeveloped	Total
Oil and condensate (MBbls)	--	2,415,015	2,415,015
Gas (MMcf)	--	4,830,030	4,830,030
Present value of estimated future Net revenues before income taxes discounted at 10%	\$ --	\$ 26,259,601	\$ 26,259,601

The present value of estimated future pretax net cash flows were determined by using current average prices of \$20.41 per Bbl of oil and \$2.90 per Mcf of gas as of October 31, 1999. There are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond the control of the producer. The reserve data set forth herein represents estimates only. Reserve engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact way, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, estimates made by different engineers often vary from one another. In addition, results of drilling, testing, and production subsequent to the date of an estimate may justify revision of such estimates, and such revisions may be material. Accordingly, reserve estimates are generally different from the quantities of oil and gas that are ultimately recovered. Furthermore, the

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estimated future net revenues from proved reserves and the present value thereof are based upon certain assumptions, including future prices, production levels and costs that may not prove correct.

		Proved Reserves
		(Dollars in thousands)
		October 31, 2000
		-----
		Developed
		-----
Oil and condensate (MBbls)		0
Gas (MMcf)		0
Present value of estimated future net revenues before income taxes discounted at 10%	\$	0

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No estimates of proved reserves comparable to those which we have included herein have been included in reports to any federal agency other than the Securities and Exchange Commission.

In accordance with Securities and Exchange Commission regulations, the Hensley Consultants, Inc. report for the Pelahatchie Field used oil and gas prices in effect as of the report dates. The prices used in calculating the estimated future net revenue attributable to proved reserves do not necessarily reflect market prices for oil and gas production subsequent to those dates. There can be no assurance that all of the proved reserves will be produced and sold within the periods indicated, that the assumed prices will actually be realized for such production or that existing contracts will be honored or judicially enforced.

Volumes, Prices and Oil and Gas Operating Expense

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The following table sets forth certain information regarding the production volumes of, average sales prices received for and average production costs associated with the Company's sales of oil and gas for the periods indicated.

	Year Ended 31-Oct-98	Year Ended 31-Oct-99	Year Ended 31-Oct-00
	-----	-----	-----
<b>Production:</b>			
Oil and Condensate (Bbls)	2,490	768	0
Gas (Mcf)	157,379	47	2,252
Total Mcfe	172,321	4,655	2,252
<b>Average Sales Price:</b>			
Oil and condensate (\$ per Bbl)	\$ 12.86	\$ 20.00	0
Gas (\$ per Mcf)	\$ 2.74	\$ 2.67	\$ 4.57

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Average oil and gas operating expense (\$ per Mcfe) (1)      \$    1.22            \$    1.22            \$    3.86

(1) Includes direct lifting costs (labor, repairs and maintenance, materials and supplies), work over costs, insurance and property and severance taxes.

### Productive Wells

The following table sets forth the number of productive wells in which the Company owned an interest as of October 31, 1998, 1999 and 2000.

	31-Oct-98		31-Oct-99		31-Oct-00	
	Gross Wells	Net Wells	Gross Wells	Net Wells	Gross Wells	Net Wells
Flowella Field	0	0	0	0	0	0
W.E. Colson Field	0	0	0	0	0	0
West Sandy Creek	0	0	0	0	0	0
West Lavaca River	20	0.32	20	0.32	0	0
Lewis Ranch	2	2	2	2	0	0
London Gin	1	1	0	0	0	0
Hackberry	4	0.4	4	0.4	0	0
South Hope	1	0.5	0	0	0	0
<b>Total</b>	<b>28</b>	<b>4.22</b>	<b>26</b>	<b>2.72</b>	<b>0</b>	<b>0</b>

### Employees

The Company currently employs four full time salaried persons. Mr. Norris R. Harris, Mr. Jack R. Durland Jr. and Mr. Jonathan G. Harris work full-time. There is also one full-time staff person in corporate administration and support.

### Office Facilities

The Company currently offices with Gulfport Oil & Gas, Inc. The Company has no other office facilities at this time.

### DESCRIPTION OF THE BUSINESS

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### Environmental Hazards and Liabilities

There are numerous natural hazards involved in the drilling of wells, including unexpected or unusual formations, pressures, blowouts involving possible damages to property and third parties, surface damages, bodily injuries, damage to and loss of equipment, reservoir damage and loss of reserves. Uninsured liabilities would reduce the funds available to the Company, may result in the loss of the Company's properties and may create liability for the Company. The Company may be subject to liability for pollution, abuses of the environment and other similar damages. Although the Company will maintain insurance coverage in amounts management deems appropriate, it is possible that insurance coverage may be insufficient. In that event, Company assets would be utilized to pay personal injury and property damage claims and the costs of controlling blowouts or replacing destroyed equipment rather than for additional drilling activities.

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### Leasehold Defects

The Company attempts to obtain its interests in producing properties with a general warranty of title. In many instances, title opinions may not be obtained if in management's discretion it would be uneconomical or impractical to do so. This increases the possible risk of loss and could result in total loss of properties purchased. Furthermore, in certain instances management may determine to purchase properties even though certain technical title defects exist, if it believes it to be in the best interests of the Company.

### Hazards and Delays

Hazards such as unusual or unexpected formations, pressures, down-hole fires, blow-outs and loss of circulation of drilling fluids are risks involved in drilling and operating oil and gas wells. The Company may not be insured against all losses or liabilities that may arise from such hazards, because such insurance is unavailable, because management has elected not to purchase such insurance due to the high premium cost, or for other reasons. In the event the Company incurs uninsured losses or liabilities, the Company's available funds would be reduced and interests in producing properties might be lost. Even though a well is completed and is found to be productive, or even if it has produced oil and gas for a significant period of time, water or other deleterious substances may be encountered that may impair or curtail production or marketing of oil or gas from such well. The cost of producing oil and gas reserves can vary depending upon unpredictable performance by a well or group of wells, and is subject to all of the hazards of operating wells. If it is necessary to deepen, rework or recomplete certain wells in order to maximize production, there can be no assurance that money spent for such activities will be recoverable, that the intended result will be achieved, or that any of the other high risks of drilling activity will not adversely affect the Company.

### Drilling Policy

The Company operates wells in areas where management is of the opinion it is in the best interests of the Company to do so. As operator, it will be responsible for all operational functions, including drilling, development, testing, and completion and equipping wells, production pumping and the sale of oil and gas production. It is anticipated the Company will conduct development drilling on the properties it acquires to enhance production and will engage in exploratory drilling activity.

The Company does not expect to own any drilling equipment. Drilling and certain other activities including seismic acquisition will be conducted by non-affiliated contractors under the Company's supervision. Activities such as production pumping, storage, deliveries, and equipment maintenance will be conducted by Company employees or non-affiliated contractors, depending on which approach is more efficient.

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### Acquisition of Undeveloped Prospects

Management will select undeveloped prospects which will be acquired by the Company at the lesser of cost or fair market value. Depending on its attributes, a prospect may be characterized as an "exploratory" or "development" site. Generally speaking, exploratory drilling involves the conduct of drilling operations in search of a new and yet undiscovered pool of oil and gas, whereas development drilling involves drilling to a known producing formation in a previously discovered field.

The prospects will be acquired pursuant to arrangements whereby the Company will

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purchase between 1 percent and 100 percent of the working interests, subject to landowners' royalty interests and other royalty interests payable to unaffiliated third parties. The Company will generally acquire less than 100 percent of the working interests in each prospect in which it will participate.

The actual number, identity and percentage of working interests and leases or other interests in prospects to be acquired by the Company will depend upon, among other things, the total amount of money raised by the Company and the borrowing of funds, the latest geological and geophysical data, potential title or spacing problems, availability and price of drilling services, tubular goods and services, approvals by federal and state departments or agencies, agreements with other working interests owners in the prospects, farm-ins, and continuing review of other prospects that may be available.

### Drilling and Completion Phase

It is anticipated that most wells will be drilled to the depth determined appropriate to target oil or gas production. Some shallower or deeper development prospects may be drilled. Thereafter, the Company will complete each well deemed by the Company to be capable of production of oil or gas in commercial quantities.

In the event the funds allocated for exploratory wells are not used to drill such wells, such funds together with unexpended completion funds will be used to drill additional development wells, acquire seismic data to identify future well locations, or lease relevant exploration or development areas.

The Company will determine the depth to which a particular well is drilled based on geologic and other information available to it. No representations are given herein as to the depths and formations to be encountered in the Company's wells. Management may substitute another operator or operators, on terms and conditions substantially the same as those discussed herein. Management will monitor the operations of the operators and non-affiliated drilling contractors and subcontractors. The cost of drilling to the Company will be the actual cost of third party drilling.

Management will represent the Company in all operations matters, including the drilling, testing, completion and equipping of wells and the sale of the Company's oil and gas production.

### Production Phase of Operations

Once the Company's wells are "completed" (i.e., all surface equipment necessary to control the flow of, or to shut down, a well has been installed, including the gathering pipeline), production operations will commence. The Company intends to sell gas production from its wells to industrial users, gas brokers, interstate pipelines or local utilities. Management will negotiate with various parties to obtain gas purchase contracts. Due to rapidly changing market conditions and normal contracting procedures, final terms and contracts will not be completed until after the wells have been drilled. As a result of the effects of weather on costs, the Company's results may be affected by seasonal factors. In addition, both sales volumes and prices tend to be affected by demand factors with a significant seasonal component.

### Gas Pipeline and Transmission

The Company's wells will usually be drilled in the vicinity of transmission pipelines, gathering systems, and/or end users. Management believes that there are sufficient transmission pipelines, gathering systems, and end users for the Company's production, subject to some seasonal curtailment. The Company will bear the expense of hook-up and/or gathering charges between the gas wells and the transmission pipelines.

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### Sale of Production

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The Company will attempt to sell the oil and gas produced from its prospects on a competitive basis at the best available terms and prices. Management will not make any commitment of future production that does not primarily benefit the Company. Generally, purchase contracts for the sale of oil can be canceled on thirty days' notice, whereas purchase contracts for the sale of natural gas usually have a term of a number of years and may require the dedication of the gas from a well for the life of its reserves.

The Company will sell natural gas discovered by it at negotiated prices based upon a number of factors, such as the quality of the gas, well pressure, estimated reserves, prevailing supply conditions and any applicable price regulations promulgated by the Federal Energy Regulatory Commission. The Company expects to sell oil discovered and sold by it at free market prices.

### Joint Operating Agreements

The Company has entered into joint operating agreements with unaffiliated third parties as operators. A representative form of an operating agreement, a copy of which will be furnished upon request, provides that the operator will conduct and direct and have full control of all operations on the Company's prospects. The operator will have no liability as operator to the Company for losses sustained or liabilities incurred, except as may result from the operator's negligence or misconduct.

The Company pays a proportionate share of lease, development, and operating costs, and is entitled to receive a proportionate share of production subject only to royalties and overriding royalties. The Company is responsible only for its obligations and is liable only for its proportionate share of the costs of developing and operating the prospects.

An operator's duties will typically include testing formations during drilling, and completing the wells by installing such surface and well equipment, gathering pipelines, heaters, separators, etc., as are necessary and normal in the area in which a prospect is located. The Company pays the drilling and completion costs of the operators as incurred, except that the Company is permitted to make advance payments to the operators where necessary to secure tax benefits of prepaid drilling costs and there is a valid business reason. In order to comply with conditions to securing tax benefits of prepaid drilling costs, the operator under the terms of an operating agreement will not refund any portion of amounts paid in the event actual costs are less than amounts paid, but will apply any such amounts solely for payment of additional drilling services to the Company. If an operator determines that a well is not likely to produce oil and/or gas in commercial quantities, the operator will plug and abandon the well in accordance with applicable regulations.

The Company bears its proportionate share of the cost of drilling and completing or drilling and abandoning each of the Company's wells. To the extent that the Company acquires less than 100 percent of a prospect, its drilling and completion costs of that prospect will be proportionately decreased. The operating agreement will provide that the Company will pay the operator the prospect cost and the dry hole cost for each planned well prior to the spud date (commencement of actual drilling), and the balance of the completed well costs when the well is completed and ready for production, in the case of a completed well.

The operator will provide all necessary labor, vehicles, supervision,

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management, accounting, and overhead services for normal production operations, and will assess the Company on a per well basis as described in the operating agreement for operations, field supervision, accounting, engineering, management, and general and administrative expenses. Non-routine operations will be billed to the Company at their cost.

The Company will have the right to take in-kind and separately dispose of its share of all oil and gas produced from its prospects, excluding its proportionate share of production required for lease operations and production unavoidably lost. Initially, the Company will designate the operators as its agents to market such production and authorize the operators to enter into and bind the Company in such agreements as they deem in the best interest of the Company for the sale of such oil and/or gas. If pipelines, which have been built by an operator, are used in the delivery of natural gas to market, the operator may charge a gathering fee not to exceed that which would be charged by a non-affiliated third party for a similar service.

An operating agreement will continue in force so long as any such well or wells produce, or are capable of production. Any non-producing well will then be plugged and abandoned consistent with the terms of the operating agreement.

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### Expenditure of Production Revenues

The Company's share of production revenue from a given well will be burdened by and/or subject to royalties and overriding royalties, monthly operating charges, and other operating costs. Such expenditures involve amounts payable solely out of, or expenses incurred by reason of, production operations. Inasmuch as the Company's primary source of income will be production revenues, the Company will be required to borrow any funds it may require to meet operation expenditures prior to production.

### Insurance

The Company will obtain insurance and maintain such policies subject to its analysis of premium costs, coverage and other factors. Management may, in its sole discretion, increase or decrease the policy limits and types of insurance from time to time as it deems appropriate under the circumstances, which may vary materially.

The costs of insurance will be allocated based primarily upon the level of oil and gas operations. The costs of insurance have increased significantly in recent years but have currently stabilized. However, insurance premiums may materially increase in the future. The primary effect of increasing premiums cost is to reduce funds otherwise available for Company drilling operations.

### COMPETITION, MARKETS AND REGULATIONS

#### Competition

The Company is expected to encounter strong competition from many other potential producers of oil and gas, including many which possess larger staffs and greater financial resources in acquiring economically desirable properties. Many external factors beyond the Company's control will determine the prices obtainable for the Company's oil and gas production. Oil and gas production is subject to significant governmental regulation, including regulations fixing rates of production and the maximum sales price of some categories of natural gas, and it is possible that these regulations pertaining to pricing and rates of production could become more pervasive and stringent in the future. The Company faces competition in all aspects of its business, including, but not

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limited to, acquiring reserves, leases, licenses and concessions; obtaining goods, services and labor needed to conduct its operations and manage the Company; and marketing its oil and gas. The Company's competitors include multinational energy companies, government-owned oil and gas companies, other independent producers and individual producers and operators. The Company believes that its competitive position is affected by price, its technical capabilities, and ready access to markets for production. Many competitors have greater financial and other resources than the Company, more favorable exploration prospects and ready access to more favorable markets for their production.

### Current Markets for Oil and Gas

The future revenues generated by the Company's operations are highly dependent upon the prices of, and demand for, oil and gas. For the last several years, prices of these products have reflected a worldwide surplus of supply over demand. The price received by the Company for its crude oil and natural gas will depend upon numerous factors, the majority of which are beyond the Company's control, including economic conditions in the United States and elsewhere, the world political situation as it affects OPEC, the Middle East (including the current embargo of Iraqi crude oil from worldwide markets and other producing countries), the actions of OPEC and governmental regulation. The fluctuation in world oil prices continues to reflect market uncertainty regarding OPEC's ability to control member country production and underlying concern about the balance of world demand for and supply of oil and gas. Decreases in the prices of oil and gas have had, and could have in the future, an adverse effect on the Company's development and exploration programs, proved reserves, revenues, profitability and cash flow.

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### Instability of Prices of Oil and Gas

Global economic conditions, political conditions, variations in weather conditions, energy conservation, and other factors contribute to unstable prices. It is not possible to predict if prices will increase or decrease in the future. An increase in crude prices would have a beneficial effect on the Company while a decrease in crude prices would adversely affect the Company and the stockholders. Prices for both oil and gas are likely to remain volatile.

### Environmental Regulation

The federal government and various state and local governments have adopted laws and regulations regarding the control of contamination of the environment, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, as amended, the Solid Waste Disposal Act, as amended, the Clean Air Act, as amended, the Oil Pollution Act and the Clean Water Act and their state and local counterparts. Although many of these laws and regulations contain at least partial exemptions for oil and gas exploration and production activities, they may require the acquisition of a permit by operators before drilling commences, prohibit drilling activities on certain lands lying within wilderness areas, require the reduction of the emissions of wastes or pollutants from such properties or require the remediation of, and/or impose substantial penalties for, pollution resulting from drilling operations, particularly operations in offshore waters or on submerged lands. It is always possible that one or more of the exemptions for oil and gas exploration and production activities will be eliminated, thereby possibly subjecting the Company and others in the industry to significantly costlier petroleum and waste handling and disposal practices.

The Company will own or lease numerous properties which have been used for the

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production of oil and gas for many years, and which were previously developed and operated by persons over whose petroleum and other waste handling and disposal activities the Company had no control. These handling and disposal practices may have resulted in contamination of these properties which may someday require remediation in order to comply with applicable environmental laws and regulations. Environmental laws and regulations may also increase the costs of routine drilling and operation of wells. Because these laws and regulations change frequently, the costs to the Company of compliance with existing and future environmental regulations cannot be predicted.

### ITEM 3. LEGAL PROCEEDINGS

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

1. On October 15, 1999, Radler Enterprises Texas, Inc., filed suit against ARXA 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. ARXA is presently vigorously defending this case on its merits. Mr. Ford is represented by other counsel. This case will be set for trial in approximately February, 2001.
2. Coastal Oil & Gas Corporation filed suit against ARXA in the 333rd 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.

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

No matters were submitted to a vote of security holders during the first fiscal year ended October 31, 2000, through the solicitation of proxies or otherwise.

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## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

#### REVERSE STOCK SPLIT

Effective October 26, 1998, five days before our fiscal year end, we declared a reverse stock split of 1 for 5. Fractional shares were rounded up. Prior to the split we had 28,342,501 shares issued and outstanding. Following the split we had 5,668,518 shares issued and outstanding. Included in the shares of October 26, 1998, were 5,073,000 pre-split or 1,014,600 post-split shares held in escrow, to be used with a pending transaction. Between October 26, 1998 and the end of the fiscal year, the pending transaction was not consummated and the shares were cancelled, reducing the total shares issued and outstanding to 4,653,918, post split.

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### MARKET PRICES

Our Common Stock is listed on the OTC Electronic Bulletin Board under the symbol "ARXA." Public trading of our Common Stock began on August 8, 1995. The market for the Common stock has been limited, sporadic and highly volatile. The following table sets forth the high and low closing bid price of the Common Stock for the periods indicated. The information was obtained from Trading and Market Services of the NASDAQ Stock Market, Inc. The quotations represent inter-dealer prices without retail mark-ups, mark-downs or commissions and do not represent actual transactions.

Fiscal Year/Period	Price Range	
	High	Low
February 1, 1997 to October 31, 1997 (1)		
First Quarter	2.25	1.5625
Second Quarter	4.375	1.50
Third Quarter	2.375	1.1875
November 1, 1997 to October 31, 1998 (1)		
First Quarter	1.50	0.50
Second Quarter	0.58	0.27
Third Quarter	1.38	0.27
Fourth Quarter (2)	0.67	0.12
Fourth Quarter (3)	0.8125	0.25
November 1, 1998 to October 31, 1999		
First Quarter	0.69	0.20
Second Quarter	0.38	0.27
Third Quarter	1.47	1.16
Fourth Quarter	1.20	0.95
November 1, 1999 to October 31, 2000		
First Quarter	1.20	0.81
Second Quarter	1.01	0.76
Third Quarter	0.92	0.41
Fourth Quarter	0.40	0.22

- (1) Fiscal year end, changed by the Board of Directors from January 31, 1998 to October 31, 1997.
- (2) These prices are before the 1 for 5 reverse stock split.
- (3) These prices are after the 1 for 5 reverse stock split.

On January 13, 2001 there were approximately 1,192 holders of record.

### WARRANTS

None of the warrants of ARXA are traded in any public trading market.

### DIVIDENDS

ARXA has not had any earnings and does not intend to pay cash dividends on its common stock. The current policy of the board of directors of ARXA is to retain earnings, if any, to provide funds for its operations and expansion of its business. The board of directors will review this policy from time to time in light of the earnings and financial position of ARXA.

### SALE BY THE COMPANY OF UNREGISTERED SECURITIES

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1. On July 10, 1998 we issued 100,000 shares to OPMI Operating Company and 2,000 shares to John Newton. These pre-split issuances were in partial consideration for our acquisition of an interest in certain oil and gas leases. (See Part I, Item 3 "Legal proceedings".) These issuances were considered exempt under Section 4(2) of the Securities Act.

2. On July 14, 1998 the four holders of our promissory notes including two directors converted such notes, having a principal of \$134,027, to Common Stock at a conversion price of \$.14 per share, based on the conversion price provided in the notes:

	Principal -----	Shares -----
Larry Keeler (director)	\$ 50,000	360,000
Robert Farris (director)	50,000	360,000
Errol Cook	33,333	240,000
Paul Wigoda	694	5,000
	-----	-----
Totals	\$ 134,027	965,000

The conversion issuance of 965,000 pre-split shares was considered exempt under Section 3 (a) (9) of the Securities Act.

3. On July 28, 1998 we issued 300,000 pre-split shares to Norman Olshansky as compensation for financial/consulting and corporate advisory services. This issuance was considered exempt under Section 4 (2) of the Securities Act.

4. On May 7, 1999, ARXA sold 6,000,000 shares of its Common Stock to Gulfport Oil & Gas Inc. ("Gulfport"), a Delaware Corporation. Gulfport is a private company, and on May 7, 1999, was the owner of approximately fifty-three and four tenths percent (53.4%) of the outstanding 11,241,322 shares of ARXA and was controlling shareholder of ARXA. Norris R. Harris is Chairman and CEO of Gulfport Oil & Gas, Inc. Phoenix granted to Norris R. Harris, President of Gulfport, an irrevocable stock proxy on 2,557,262 shares of common stock of ARXA owned by Phoenix. The stock proxy is for a period of one year from May 5, 1999. On May 5, 1999, Phoenix owned approximately twenty-three percent (23%) of the common stock of ARXA.

5. On May 25, 1999, ARXA acquired from Gulfport Oil & Gas, Inc. a twenty-five percent (25%) working interest in certain proved undeveloped, non-producing oil and gas reserves in the Pelahatchie Field, Rankin County, State of Mississippi. The acquisition of the oil and gas properties by ARXA was based upon a petroleum engineers appraisal report on the Pelahatchie Field which estimated proved undeveloped oil and gas reserves for three development wells.

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The acquisition by ARXA from Gulfport was based upon proved undeveloped non-producing oil and gas reserves discounted at twenty-five percent (25%). The total dollar value agreed to by ARXA and Gulfport as to a twenty-five percent (25%) working interest in three development wells in the Pelahatchie Field was \$13,576,532. Under the agreement between ARXA and Gulfport, ARXA paid for the acquisition of the working interest in the Pelahatchie Field to Gulfport as follows: (1) Assigned to Gulfport the Promissory Note of Gulfport payable to ARXA in the amount of \$600,000.00 principal and accrued interest of \$2,292.15 for a total of \$602,292.15; (2) Assigned to Gulfport 15,000,000 shares of common stock in ARXA at \$.20 per share or a total of \$3,000,000.00 as agreed to in Agreement with Gulfport dated April 28, 1999; and (3) Assigned to Gulfport 8,598,482 shares of ARXA based upon \$1.16 per share which was the closing stock

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price of ARXA on May 25, 1999, or a total of \$9,974,239.85.

6. Between May 25, 1999 and October 31, 1999 transferred 5,216,625 shares of its ARXA common stock for the benefit of others, none of which retain more than five percent (5%) of ARXA's Common stock. As of October 31, 2000, Gulfport Oil & Gas, Inc. owned 29,598,482 shares of ARXA's Common stock or eighty-five percent (85%).

7. On June 2, 1999, Duke Resources Corporation, in a lawsuit filed against ARXA in the Superior Court of Vanderburg County, State of Indiana, obtained a judgment against ARXA for \$79,770.00, prejudgment interest in the amount of 2972.25, postjudgment interest at eight percent (8%) per annum, attorney fees of 2725.00, and court costs. ARXA on or about October 6, 1999, settled this lawsuit by payment of \$54,800.00 plus issuance of 100,000 shares of common stock in ARXA which were unregistered. Duke Resources Corporation executed Release and Satisfaction of Judgment of the above described judgment which was filed on October 11, 1999.

The issuance of the common stock in ARXA is considered by ARXA to be exempt under Section 4(2) of the Securities Act.

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATION

#### A. Results of Operations

The Company's independent auditors have included an explanatory paragraph in their report on the Company's consolidated financial statements as of October 31, 2000 and the related consolidated statements of operations for the year ended October 31, 2000. "The Company had a net loss of \$12,384,212 and negative cash flow from operations of \$180,958 for the year ended October 31, 2000 and had an accumulated deficit of \$16,729,696 at that date, which raises substantial doubt about its ability to continue as a going concern."

Oil and gas revenues for the year ended October 31, 2000 were \$12,321, which is a \$125,467 decrease from \$137,788 for the year ended October 31, 1999 and is primarily attributed to normal production decline and the write-off of unprofitable oil and gas leases.

Lease operating expense for the year ended October 31, 2000 was \$22,714, which is a \$132,382 decrease from the \$155,096 from the year ended October 31, 1999. The decrease is primarily due to the write-off of unproductive property.

General and administrative costs for year ended October 31, 2000 were \$238,234, which is a \$856,491 decrease from the \$1,094,725 for the year ended October 31, 1999. The decrease is solely attributable to the Company's efforts to reduce overhead, cut staff, and write-off unproductive properties.

#### B. Liquidity and Capital Resources

The Company's independent auditors have included an explanatory paragraph in their report on the Company's consolidated financial statements as of October 31, 2000 and for the year then ended which states that "The Company is

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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."

Net cash flow from operations for the year ended October 31, 2000 was a deficit

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of \$180,958 as compared to a deficit of \$672,277 for the year ended October 31, 1999.

The primary source of cash equivalents for the year ended October 31, 2000 was from issuance Notes.

The Company notes that there is not sufficient monthly cash flows from operations to continue to operate the business for the next year, or for that matter, the next fiscal quarter.

### C. Management's Response and Plan of Operation

#### Strategy

In the interest of a conservative approach to help obtain financing, the company has written off all non-producing oil and gas reserves and all reserves which in our opinion were not economical. Henceforth the company will only report proved, producing reserves.

The company is negotiating the acquisition of approximately 160,000 miles of seismic data which is located primarily in the Gulf Coast area from Mississippi to South Texas. This database will be used by the highly experienced staff to check out drilling prospects submitted by other oil companies and to generate exploration plays in this prolific gas producing area where a major portion of the remaining gas reserves in the United States are located.

Joint ventures with other companies are being negotiated. These ventures will allow us to leverage our drilling dollars and thus increase our return on investment.

Gas prices are higher than they have been since the early 1980's and are projected to stay high through the end of 2001. These prices justify the completion of thin gas zones which were left behind by the majors in the past. The company has a number of these projects to develop when financing is completed. The company is also negotiating the acquisition for stock of a small field which is producing three million cubic feet of gas per day. The above mentioned seismic data acquisition which is appraised at \$65 Million will be paid for with stock. This transaction is expected to close before the end of the first quarter of 2001.

#### Capitalization

Under-capitalization is, and has been since inception, the most serious problem facing the company. Among the assets the company brings to the table to discuss capital formation is (a) no long term or secured debt, (b) acquisition and exploitation opportunities with attractive risk and ROI profiles, and (c) a management team committed to execute the company's strategic plan. The company is pursuing a number of capital access sources.

### ITEM 7. FINANCIAL STATEMENTS

The information required hereunder is included in this report as set forth in the "Index to Financial Statements" on page F-i.

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

There have been no disagreements with accountants on Accounting and Financial Disclosure and there have been no changes in Accountants during the reporting

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period. The auditor for ARXA International Energy, Inc. for the fiscal year ended October 31, 1999 was Gibbons, Gibbons & Buck, P.C. The auditor for ARXA International Energy, Inc. for the fiscal year ended October 31, 2000 was Gibbons, Gibbons & Buck, P.C.

### PART III

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

Norris R. Harris, age 67, has been the President, CEO and a Director of Gulfport Oil & Gas Inc., a private oil and gas company that he formed in January, 1999. He had been an independent oil and gas operator and consultant to various independent oil and gas companies from 1993 to January 1999. Mr. Harris was Founder and President of Centex Oil and Gas Inc., (Name changed to Cenergy) which was listed on the NYSE and was Founder and President of Basin Exploration Inc., a subsidiary of Basin Petroleum Corp., (American Stock Exchange). Mr. Harris previously worked with Mobil Oil Corp., in the international division and worked in the North Sea, Libya, Turkey, the Hague, Austria, Nigeria and in Mobil Exploration's headquarters in Dallas, Texas where he worked on Africa, Southeast Asia and Latin America exploration projects. He is the father of Jonathan G. Harris.

Jack R. Durland, Jr., age 62, has been a Director and Vice-President- Chief Financial Officer of Gulfport Oil & Gas Inc. since January 1999. He was a partner in the law firm of Durland & Durland in Oklahoma City, Oklahoma from 1990 to 1998. From 1962 to 1989, Mr. Durland was a partner, officer and director in the law firm of Crowe & Dunlevy, a professional corporation, in Oklahoma City, Oklahoma. He has been admitted to practice before several Courts in the United States including the United States Supreme Court and Federal Courts in California, Oklahoma, and Texas. Mr. Durland is a graduate of the University of Oklahoma with a BBA degree in 1960, and a LLB degree in 1962.

Jonathan G. Harris, age 30, has been a Director and Vice-President-Geology of Gulfport Oil & Gas Inc. since January 1999. He had been an independent oil and gas geological consultant to various energy and environmental companies from July 1996 to 1998. Mr. Harris was a consulting geologist for Basin Industries Inc. and a field engineer for Sperry-Sun Drilling Services in the period from 1988 to June 1996. Over his career he has accumulated specific geological experience in the following areas: Florida, Louisiana, Mississippi, Texas, Puerto Rico, the Bahamas, and Turkey. He was graduated from Mississippi State University with a BSc degree in 1992 and a MSc degree in 1995. Mr. Harris is a Registered Professional Geologist in Mississippi and a member of the American Association of Petroleum Geologists and National Speleological Society. He is the son of Norris R. Harris.

All of the following Officers and Directors resigned effective May 7, 1999 when a majority of the company's outstanding shares of common stock was acquired by Gulfport Oil & Gas, Inc.

L. Craig Ford, age 52, serves as a Director and as President and Chief Executive Officer of the Company. He has been the President and Chief Executive Officer of Phoenix Energy Group, Inc. since its inception in March 1996. In that capacity he managed Phoenix's acquisition of 93% of the available working interests formerly managed by Prospector Petroleum, Inc. for which he had been Vice President of Finance from December 1994 through June 1995. During the period from July 1995 through February of 1996 he was working with the owners of the working interests to form Phoenix. From 1992 through 1994, Mr. Ford was a financial consultant to two California venture capital projects, Systematic Irrigation Controls, Inc. and Criminal Justice Communications, Inc., to which he provided corporate and strategic product advice. During the period from 1980 to

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1991 Mr. Ford was an internal audit executive for a large independent and two Fortune 500 oil and gas companies, where he was responsible for extensive operational and financial audits in exploration, production, refining, coal, chemical and gas processing activities around the world.

Mr. William J. Bippus, age 46, a Director of the Company since August, 1995 also serves as Vice President of Development. He served as ARXA's President and Chief Executive Officer from August 1995 until October 27, 1997 when he resigned and was replaced by Mr. Ford as a result of the Phoenix transaction. Mr. Bippus was employed by Marathon Petroleum Corporation from 1988 to July 1995, where he was responsible for the world-wide business

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development unit which evaluated acquisitions and entry opportunities in new areas. From 1992 to 1993, Mr. Bippus was responsible for Marathon's international non-operated areas. From 1988 to 1992, Mr. Bippus worked for Marathon in Aberdeen, Scotland and London, England as a senior geophysicist, reservoir development. From 1983 to 1987, Mr. Bippus was a senior geophysicist with Occidental Petroleum Corp. in London. Mr. Bippus worked in the International Group of Cities Services Petroleum Corp. from 1979 to 1983. Mr. Bippus is a Wyoming Board Registered Professional Geologist and a member of the Society of Exploration Geophysicists and the American Association of Petroleum Geologists.

Mr. Gregory A. Stephens, age 40, a Director of the Company since August, 1995 also served as Treasurer until October 27, 1997 when he resigned and was replaced by Mr. Ford as a result of the Phoenix transaction. Mr. Stephens has been the President of Stephens Machine, Inc., a machine shop based in Kokomo, Indiana since 1984. He is also President, since 1993, of Stephens Fabrication, Inc., a structural steel fabricator also in Kokomo. Mr. Stephens is a partner/owner of various real estate development entities and since 1994 has been a director of Refinery Associates.

Mr. Dennis P. McGrath, age 51, a Certified Public Accountant since 1976, Mr. McGrath was a sole practitioner from January, 1995 to March, 1997 when he joined Phoenix Energy Group, Inc. as Vice President and Controller. From June, 1996 through February, 1997 Mr. McGrath was engaged by Phoenix to conduct an audit of the Prospector Petroleum, Inc. joint ventures for the four year period prior to Phoenix becoming the Joint Venture Manager. From 1986 to 1994 Mr. McGrath was a partner in the Houston office of the regional public accounting firm of Simonton, Kutac and Barnidge, L.L.P. where he was the firm's partner-in-charge of small business consulting and out-sourcing services. A large portion of his clients were engaged in oil & gas exploration and development. From 1972 to 1986 Mr. McGrath held financial management positions with various oil and gas companies.

Robert G. Farris, age 69, serves as a director of the Company. Mr. Farris is the President of Valley Transit Co., Inc., Harlingen, Texas, with which he has been associated since 1955. Mr. Farris was graduated from The New Mexico Military Institute in June, 1948 and then received a Bachelors of Business Administration Degree from the University of Texas in June, 1952. He was then commissioned in the United States Army and served with the 3rd Infantry Division in Korea. He served until June, 1954. Mr. Farris has served in a variety of community and public service organizations and has been a trustee of the Marine Military Academy since 1977.

Larry Keeler, age 59, serves as a director of the Company. In addition, Mr. Keeler provides business, tax, and financial consulting services under a consulting agreement. (See Part III, Item 12 "Certain Relationships and Related Transactions") Mr. Keeler, a CPA, has been engaged in the private practice of

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accounting under the name Larry Keeler P.C. for over seven years. Mr. Keeler was authorized to practice in California in 1969 and in Texas in 1989. He is a member of the American Institute of CPAs and the Texas Society of CPAs.

Compliance with Section 16(a) of the Exchange Act

The Company believes that all persons required to report have filed reports for the period covered by this transition report. However, the Company believes that all of such reports for Messrs. Bippus (Form 4) and Ford, Moran, McGrath, Veh and Phoenix Energy Group, Inc. (Form 3) were not timely filed.

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### ITEM 10. EXECUTIVE COMPENSATION

#### Compensation of Executive Officers

During the fiscal year ended October 31, 2000, Executive compensation paid for the year was as follows:

Summary Compensation Table

Name and Principal Position	Fiscal Period	Compensation		Stock Issuance
		Salary	Other Compensation	
Norris R. Harris Chairman - Chief Executive Officer/1/	10/31/00	0	0	0
Jack R. Durland, Jr Director - Vice President and CFO	10/31/00	40,000	0	0
Jonathan Harris Director - Vice President Geology	10/31/00	35,960	0	0

/1/ Mr. Harris replaced Mr. Ford on May 5, 1999.

#### Compensation of Directors

Directors are not compensated for their services as such and there is no current plan to compensate them, beyond the Executive and Director Stock Options granted July 27, 1998, discussed below. Directors may be reimbursed expenses incurred in attendance at meetings.

#### Other Compensation

There are no Stock Appreciation Rights (SARs) held by any executive officer or any other person. There is no Deferred Compensation owing to any executive officer.

#### Stock Options

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### Incentive Stock Option Plan

The shareholders of the Company approved an Incentive Stock Option Plan at the Annual Meeting held on August 13, 1996. Such Plan authorized the issuance of options to purchase up to 1,000,000 shares. The exercise price is not to be less than 100% of the fair market value of a share of Common Stock on the date the option is granted and the option may not have a term of more than ten years from the date of grant; except that for owners of 10% or more of the total combined voting power of the Company and its subsidiaries, the exercise price is to be at least 110% of the fair market value of a share on the date the option is granted and the option may not have a term of more than five years from the date of grant.

As of January 13, 2001 no options have been granted under the Plan.

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### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(A) The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock as of February 8, 2000 by all persons known by the Company to be beneficial owners of more than five percent (5%) of its Common Stock, each director of the Company, each executive officer of the Company, and all directors and executive officers as a group:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership/1/	Percent of Class/2/
Gulfport Oil & Gas, Inc. And it's investors. 2301 14th Street, Suite 900 Gulfport, MS 39501	29,598,482	0.85%
Phoenix Energy Group, Inc. 530 Wells Fargo Drive, Suite 310 Houston, TX 77090	-0-/3/4/	0.00%
All officers and directors as a group (5 persons)	-0-	0.00%

/1/ Unless otherwise indicated below, all shares are owned legally (of record) and beneficially.

/2/ Based upon 34,939,804 shares issued and outstanding on January 13, 2001.

/3/ On May 7, 1999, ARXA sold 6,000,000 shares of its Common Stock to Gulfport Oil & Gas Inc. ("Gulfport"), a Delaware Corporation. Gulfport is a private company, and on October 31, 2000, was the owner of approximately eighty -five (85.%) of the outstanding 34,939,804 shares of ARXA and was controlling shareholder of ARXA. Norris R. Harris is Chairman and CEO of Gulfport Oil & Gas, Inc. Phoenix granted to Norris R. Harris, President of Gulfport, an irrevocable stock proxy on 2,557,262 shares of common stock of ARXA owned by Phoenix. The stock proxy is for a period of one year from May 5, 1999. On May 5, 1999, Phoenix owned approximately twenty-three percent (23%) of the common stock of ARXA.

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/4/ After this acquisition, Phoenix Energy Group, Inc., distributed its shares of ARXA to its shareholders in exchange for phoenix stock. None of the beneficial owners hold more than five percent (5%) of ARXA's Common stock.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

None

(b) REPORTS ON FORM 8-K

On May 7, 1999 the Company filed Form 8-K to report changes in control of registrant.

On January 4, the Company filed Form 8-K to report changes in the company's certifying accountants.

On March 8, 2000 the Company filed Form 8-K to report change in board of directors.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARXA INTERNATIONAL ENERGY, INC.

By: /s/ Norris R. Harris

-----  
Norris R. Harris, President and  
Chief Executive Officer

Dated: January 17, 2001

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures  
-----

Title  
-----

/s/ Norris R. Harris  
-----  
Norris R. Harris

President/Chief Executive Officer  
and Director

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/s/ Jack R. Durland, Jr.  
-----

VP & Chief Financial Officer  
and Director

Jack R. Durland, Jr.

/s/ Jonathan G. Harris  
-----

VP & Director

Jonathan G. Harris

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ARXA INTERNATIONAL ENERGY, INC. & SUBSIDIARY

FINANCIAL STATEMENT AND SUPPLEMENTARY INFORMATION

YEAR ENDED OCTOBER 31, 2000 AND 1999

ARXA INTERNATIONAL ENERGY, INC. & SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
and Stockholders  
ARXA International Energy, Inc.  
Houston, Texas

We have audited the accompanying consolidated balance sheet of ARXA International Energy, Inc. and subsidiary as of October 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are

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the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ARXA International Energy, Inc. and subsidiary as of October 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note B to the consolidated financial statements the Company had a net loss of \$12,384,212 and negative cash flows from operations of \$180,958 for the year ended October 31, 2000 and had an accumulated deficit of \$16,729,696 at that date. For the year ended October 31, 1999 the Company had a net loss of \$1,150,467 and negative cash flow from operations of \$672,277 for the year and had an accumulated deficit of \$4,345,483 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. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Gene Gibbons

-----  
Gibbons, Hall, L.L.C.  
January 15, 2001

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ARXA INTERNATIONAL ENERGY, INC. & SUBSIDIARY

CONSOLIDATED BALANCE SHEETS  
October 31,

	2000
CURRENT ASSETS	
Cash	\$ 735
Accounts receivable, net of allowance for doubtful accounts	----- -
Total current assets	735

PROPERTY AND EQUIPMENT, (full cost method for oil and gas properties), net of accumulated depletion, depreciation, amortization and provision for impairment

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	18,656
OTHER ASSETS	173
	\$ 19,564 =====
Current Liabilities	
Accounts payable	\$ 3,578
Accrued interest	61,385
Notes payable-current portion	538,200
Other current liabilities	14,028
Total current liabilities	617,191
STOCKHOLDERS' EQUITY:	
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
Accumulated deficit	(16,729,696)
Total stockholders' equity	(597,627)
	\$ 19,564 =====

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Approved by the Directors:

/s/ Norris R. Harris  
1-17-01 Director

-----  
 Norris R. Harris

/s/ Jack R. Durland, Jr.  
1-17-01 Director

-----  
 Jack R. Durland, Jr.

/s/ Jonathan G. Harris  
1-17-01 Director

-----  
 Jonathan G. Harris

See accompanying notes to these consolidated financial statements.

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### CONSOLIDATED STATEMENTS OF OPERATIONS

	2000	Years Ended October 31,	
		1999	1998
OIL AND GAS REVENUES	\$ 12,321	\$ 137,788	\$ 463,875
COST AND EXPENSES			
Lease operating expenses	22,714	155,096	199,715
Severance taxes	-	6,172	10,984
Depletion, depreciation, amortization and provision for impairment	29,676	74,719	157,762
Loss on abandonment of leases	12,059,662		
General and administrative	238,234	1,094,725	1,763,050
Total cost and expenses	12,350,286	1,330,712	2,131,511
LOSS FROM OPERATIONS	(12,337,965)	(1,192,924)	(1,667,636)
OTHER INCOME (EXPENSE)			
Interest income	30	2,002	6,010
Dividend income	3,770	281	
Interest expense	(61,385)	(3,146)	(6,020)
Equity in loss of oil and gas venture	(93,296)		
Other	11,338	43,320	12,643
	-----	-----	-----
	(46,247)	42,457	(80,663)
LOSS BEFORE INCOME TAXES	(12,384,212)	(1,150,467)	(1,748,299)
INCOME TAX BENEFIT, net	-	-	-
NET LOSS	\$ (12,384,212)	\$ (1,150,467)	\$ (1,748,299)
NET LOSS PER COMMON AND COMMON			
EQUIVALENT SHARE - BASIC AND DILUTED	\$ (0.35)	\$ (0.06)	\$ (0.41)
Weighted Average Common and Common			
Equivalent Shares	34,939,804	19,461,492	4,219,770

See accompanying notes to these consolidated financial statements.

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ARXA INTERNATIONAL ENERGY, INC. & SUBSIDIARY  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE PERIOD FROM DECEMBER 31, 1996 TO OCTOBER 31, 2000

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	Common Stock		Additional Paid-In Capital	Unearned Compensation
	Shares	Amount		
BALANCES, December 31, 1996	1,301,167	1,302	1,987,357	
Issuance of stock for oil and gas Properties	16,573	16	30,290	
Conversion of notes payable and accrued interest	33,780	33	84,967	
Sales of common stock	762,828	763	1,239,797	
Issuance of common stock for Compensation	442,914	443	378,487	
Acquisition of ARXA	1,518,138	1,518	232,479	
Net loss		-	-	
BALANCES, October 31, 1997	4,075,400	4,075	3,953,377	
Cancellation of stock per agreement	(5,000)	(5)	-	
Net cancellation of stock to office and consultants	(32,938)	(33)	33	
Issuance of stock for oil and gas Properties	20,400	20	220,980	
Conversion of notes payable	193,000	193	133,835	
Issuance of common stock in lieu of current liability	50,000	50	87,450	
Issuance of common stock for consulting services	353,000	353	900,647	(279,359)
Rounding	56	1	3	
Net loss	-	-	-	
BALANCES, October 31, 1998	4,653,918	4,654	5,296,325	(279,359)
Issuance of common stock For consulting services previously earned	-	-	-	279,359)
Issuance of common stock For consulting services	300,000	300	149,700	
Conversion of note payable into common stock	278,004	278	77,077	
Issuance of common stock For consulting services	9,400	9	4,515	
Issuance of common stock to Gulfport Oil & Gas	6,000,000	6,000	594,000	
Issuance of common stock For oil and gas properties	15,000,000	15,000	2,985,000	
Issuance of common stock For oil and gas properties	8,598,482	8,598	6,965,642	
Issuance of common stock in lieu of current liability	100,000	100	24,870	
Rounding	-	1	-	
Net loss	-	-	-	
BALANCES, October 31, 1999	34,939,804	34,940	16,097,129	
Rounding		1		
Net Loss				

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Balances  
 October 31, 2000 34,939,804 34,940 16,097,129

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See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
 Years ended October 31

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(12,384,212)	\$ (1,150,46
Adjustments to reconcile net loss to net cash used in operating activities:		
Depletion, depreciation, amortization and provision for Impairment	29,676	74,71
Loss of oil and gas leases	12,059,662	
Loss of Indemnification fund	50,000	
Issuance of stock for compensation		331,55
Changes in operating assets and liabilities:		
Accounts receivable		119,43
Income tax receivable		
Other current assets		
Accounts payable	(282)	(22,04
Other current liabilities	2,813	(37,53
Accrued interest	61,385	
Other, net		12,06
Net cash used in operating activities	(180,958)	(672,27
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deletions to fixed assets		(16,79
Purchase of oil and gas property	(500,000)	(9,983,53
Net cash provided by (used in) investing activities	(500,000)	(10,000,32
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes	538,200	
Payment of stockholder notes		(157,05
Sales of common stock		10,806,04
Net cash provided by financing activities	538,200	10,648,99
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:	(142,758)	(23,61
CASH AND CASH EQUIVALENTS, beginning of period	143,493	167,10
CASH AND CASH EQUIVALENTS, end of period	\$ 735	\$ 143,49

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ARXA INTERNATIONAL ENERGY, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 October 31, 2000 and 1999

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### 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. 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. Depletion expense per mcf equivalent was \$.64 for the year ended October 31, 2000 and \$.64 for the year ended October 31, 1999.

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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ARXA INTERNATIONAL ENERGY, INC. & SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS  
October 31, 2000 and 1999

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

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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. At October 31, 1999, approximately 83% of the Company's oil and gas reserves were attributable to non-producing properties. The company owned no oil and gas properties at October 31, 2000. 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 office equipment	3 - 5 years
Automobile	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 October 31, 1999. There were no receivables at October 31, 2000.

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.

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ARXA INTERNATIONAL ENERGY, INC. & SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS  
October 31, 2000 and 1999

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

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(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 \$(12,384,212) and negative cash flow from operations of \$(180,958) for the year ended October 31, 2000 and had an accumulated (deficit) of \$(16,729,696) 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 October 31, 2000 and 1999.

### NOTE D - PROPERTY AND EQUIPMENT

Property and equipment at October 31, consisted of the following:

	2000	1999
	----	----
Oil and gas properties	\$ -0--	\$ 12,410,755
Other property and equipment	142,504	142,504
	-----	-----
	142,504	12,553,259
Less accumulated depletion, depreciation, amortization and provision for impairment	(123,848)	(946,387)
	-----	-----
	\$ 18,656	\$ 11,606,872
	=====	=====

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## ARXA INTERNATIONAL ENERGY, INC. & SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS October 31, 2000 and 1999

#### NOTE E - OTHER ASSETS

Other non-current assets at October 31, 1999 consisted primarily of an indemnification fund of \$50,000. The indemnity fund, was set up for the benefit of the liquidating agent for Prospector in accordance with the Joint Venture Dispute Resolution Agreement for a period not to exceed four years. Upon expiration of the four-year period, any remaining funds were to be returned to the Company. After exhausting options to collect the funds, the indemnification fund was determined to be uncollectible during the year ended October 31, 2000.

#### NOTE F - NOTES PAYABLE TO STOCKHOLDERS

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Notes payable to stockholders at October 31, 1998 included an unsecured note payable to a stockholder and his affiliates of \$77,285. The note was non-interest bearing (imputed at 8%) and payable at 7% of net proceeds of future offerings received through March 1999. The note automatically converted into the Company's common stock during the year ended October 31, 1999.

Notes payable to stockholders at October 31, 1998 also included an unsecured note payable to a company affiliated with a stockholder of the Company in the amount of \$79,770. The note was interest bearing at 8% and payable in quarterly installments. To the extent that the interest is paid at each quarter end, the due date was automatically extended until March 12, 1999. The note was settled by Arxa with payment of \$54,800 and issuance of 100,000 shares of restricted stock to Duke Resources Corp.

### NOTE G - 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 H - 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.

The Company had agreements with various consultants to provide legal, accounting, and financial advisory services to the Company. The agreements expired between March 1999 and June 1999 and required the Company to pay a maximum of \$7,160 and a minimum of \$4,160 per month.

On June 10, 1998 the Company filed suit against a former employee, Kenneth Koepke. Mr. Koepke was formerly Vice President of Corporate Communications. He allegedly misused his office in an effort to supplant Mr. Ford (President and CEO) by attempting to discredit Mr. Ford with the Board of Directors. His employment was then terminated. Following the termination, Mr. Koepke continued his efforts by contacting shareholders. Among other relief, the Company sought to enjoin Mr. Koepke from contacting

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### ARXA INTERNATIONAL ENERGY, INC. & SUBSIDIARY

#### NOTES TO FINANCIAL STATEMENTS

October 31, 2000 and 1999

### NOTE H - COMMITMENTS AND CONTINGENCIES - continued

shareholders. Mr. Koepke filed a counter claim, seeking damages for defamation of character and wrongful termination. In addition, Mr. Koepke has filed a third party complaint against Mr. Ford personally, seeking damages for defamation of character. The case was settled during the year ended October 31, 1999.

Environmental Contingencies - The Company's activities are subject to existing

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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.

### NOTE I - YEAR 2000

The Company addressed possible remedial efforts in connection with computer software that could be affected by the Year 2000 problem, which is the result of computer programs being written using two digits rather than four to define the applicable year. Any programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a major system failure or miscalculations. The Year 2000 problem may impact the Company and/or other entities with which the Company transacts business. The Company has not determined the impact of the Year 2000 problem on their future operations or the costs they may incur to remediate the problem.

### NOTE J - STOCKHOLDERS' EQUITY

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

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### ARXA INTERNATIONAL ENERGY, INC. & SUBSIDIARY

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS October 31, 2000 and 1999

### NOTE J - STOCKHOLDERS' EQUITY - continued

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

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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 K - 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. 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 October 31, 2000. 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

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

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ARXA INTERNATIONAL ENERGY, INC. & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
October 31, 2000 and 1999

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### NOTE K - STOCK OPTION PLAN - continued

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:

	1999 ----	1999 ----
Net loss-as reported	\$ (12,384,212)	\$ (1,150,467)
Net loss-Pro forma	\$ (14,166,612)	\$ (2,932,867)
Net loss per common share-as reported	\$ (0.35)	\$ (0.06)
Net loss per common share-Pro forma	\$ (0.41)	\$ (0.15)

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.

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### ARXA INTERNATIONAL ENERGY, INC. & SUBSIDIARY

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS October 31, 2000 and 1999

### NOTE L - SUPPLEMENTAL CASH FLOW INFORMATION

	2000 ----	1999 ----
Cash paid during the year for:		
Interest paid	\$ -	\$ 3,146
Non-cash investing and financing activities:		
Issuance of stock for oil and gas properties, net of deferred Taxes	\$ -	\$ 9,974,240
Conversion of stockholder notes and accrued interest into common stock	\$ -	\$ 157,055



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Net capitalized costs \$ - \$11,562,126

### COSTS INCURRED IN OIL AND GAS PROPERTY ACQUISITION, EXPLORATION AND DEVELOPMENT ACTIVITIES (UNAUDITED):

The following costs were incurred in oil and gas activities as follows:

	2000 ----	1999 ----
Acquisition of proved and unproved properties during the year ended October 31, 1999	-	\$ 9,974,240
Exploration or development costs during the year ended October 31, 1999	-	\$ 221,888

### ESTIMATED QUANTITIES OF OIL AND GAS RESERVES (UNAUDITED):

The following table summarizes the Company's net interest in estimated proved oil and gas reserve quantities, all of which are located within the United States. Proved reserves are estimated reserves that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those expected to be recovered through existing wells, equipment and operating methods.

The estimate of proved reserves as shown in the table, while based on engineering, geological and geophysical data and techniques which are believed to be sound, is nevertheless not subject to precise determination. Accordingly, the estimates will change as future pricing, development, production and reservoir information becomes available. Such changes could be significant.

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### ARXA INTERNATIONAL ENERGY, INC. & SUBSIDIARY

#### SUPPLEMENTAL OIL AND GAS PROPERTIES AND RELATED RESERVES DATA (Unaudited) October 31, 2000 and 1999

#### PROVED DEVELOPED AND UNDEVELOPED RESERVES (UNAUDITED):

	Oil (BBLs)	Gas (MMCF)
PROVED RESERVES, October 31, 1998	21,364	2,605
Production 8	(768)	(47)
Purchase of Minerals in place (matches Reserve Report prepared November 1, 1999)	2,415,015	4,830
PROVED RESERVES, October 31, 1999	2,435,611	7,388
Production	(68)	(4)
Loss of oil & gas lease	(2,435,543)	(7,384)

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PROVED RESERVES, October 31, 2000

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DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED OIL AND GAS RESERVES  
Standardized measure of discounted future net cash flows and changes therein  
relating to proved oil and gas reserves are as follows:

	1999 ----	1998 ----
Future cash inflows	\$ -0-	\$63,297,548
Future production costs		(6,640,909)
Future development costs		(4,946,300)
Future income taxes		(4,273,011)
		47,437,328
Less 10% annual discount for estimated timing of cash flows		(25,450,738)
Standardized measure of discounted future net cash flows	\$ -0-	\$21,986,590

The Reserve Report was prepared for Pelahatchie property only.

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ARXA INTERNATIONAL ENERGY, INC. & SUBSIDIARY

SUPPLEMENTAL OIL AND GAS PROPERTIES AND  
RELATED RESERVES DATA (Unaudited)  
October 31, 2000 and 1999

DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED OIL AND GAS RESERVES  
(UNAUDITED): continued

In accordance with regulations prescribed by the Securities and Exchange Commission, future cash flows are computed using year-end costs and prices adjusted for contractual increases and other fixed and determinable escalations discounted at 10%. The standardized measure of discounted future cash flows does not purport to represent the fair market value of the Company's oil and gas properties. Future income tax expenses are computed using year-end statutory tax rates (adjusted for permanent differences that relate to existing proved oil and gas reserves in which the Company has mineral interests).

The principal changes in the standardized measure of discounted future net cash flows are as follows:

BALANCE, October 31, 1998	2,169,517	
Purchase of reserve	24,010,922	
Sales of oil and gas produced, net of production costs	(137,788)	
Accretion of discount	216,950	
Changes in estimated future income taxes	(4,273,011)	
BALANCE, October 31, 1999	\$ 21,986,590	

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Purchase of reserve	500,000
Sales of oil and gas produced, net of production costs	(12,321)
Accretion of discount	2,198,659
Loss of oil & gas leases	(24,672,928)
Changes in estimated future income taxes	-
BALANCE, October 31, 2000	\$ -
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ARXA INTERNATIONAL ENERGY, INC. & SUBSIDIARY  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
YEARS ENDED OCTOBER 31, 2000 AND 1999

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statement of ARXA International Energy, Inc. & Subsidiary on Form S-8 of our report dated January 15, 2001, on our audit of the consolidated financial statements and financial statement schedule of ARXA International Energy, Inc. & Subsidiary as of October 31, 2000, and for the year ended October 31, 1999, which report is incorporated by reference in this Annual Report on Form 10-K.

GibbonsHall, L.L.C.

January 15, 2001

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