

FORM 10-QSB/A - Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the period ended: March 31, 2001

or

Transition Report Pursuance to Section 13 or 15(d) of the Securities Exchange act of 1934.

For the transition period from _____ to _____

Commission File Number 33-16820-D

ARETE INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Colorado

84-1508638

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

2955 Valmont Road, Suite 310, Boulder, CO

80301

(Address of principal executive offices)

(Zip Code)

(303) 247-1313

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required

to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS:

Indicated by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of April 30, 2001, Registrant had 432,762,922 shares of common stock, no par value, outstanding.

<PAGE>

TABLE OF CONTENTS

	Page No.
Consolidated Financial Statements:	
Consolidated Balance Sheet at March 31, 2001 and December 31, 2000 (unaudited)	2
Consolidated Statements of Operations for the Three Months Ended March 31, 2001 and 2000 (unaudited)	3
Consolidated Statement of Stockholders' Deficit for the Three Months Ended March 31, 2001 (unaudited)	4
Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2001 and 2000	5-6
Notes to Unaudited Consolidated Financial Statements at March 31, 2001	7-9
Management's Discussion and Analysis of Financial Condition and Results of Operations	10-12
Part II - Other Information	12
Signatures	13

<PAGE>

<TABLE>

ARETE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
March 31, 2001 and December 31, 2000
(Unaudited)

ASSETS

<CAPTION>

	2001	2000
	-----	-----
Current assets:		
<S>	<C>	<C>
Cash and cash equivalents	\$ 792	\$ 13,376
Certificate of deposit	-	52,387
Prepaid expenses	51,320	26,031
	-----	-----
Total current assets	52,112	91,794
Furniture and equipment, at cost net of accumulated depreciation of \$9,318 (2001) and \$5,478 (2000)	15,155	18,995
Security deposit	5,954	5,954
Investment in and advances to Applied Behavior Systems, LLC (Note 2)	-	-
Investment in and advances to Aggression Sports (Note 2)	153,245	89,222
	-----	-----
	\$ 226,466	\$ 205,965
	=====	=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:		
Accounts payable (Note 3)	\$ 215,866	\$ 201,979
Accrued expenses	606,433	508,462
Accrued payroll taxes (Note 3)	198,445	191,755
Notes payable (Note 4)	100,000	50,000
Notes payable - related parties (Note 4)	180,407	201,561
	-----	-----
Total current liabilities	1,301,151	1,153,757
Commitments and contingencies (Notes 1, 3 and 6)		
Stockholders' deficit (Note 4):		
Convertible Class A preferred stock; \$10 face value, 100,000 shares authorized, 3,000 shares issued and outstanding (liquidation preference \$32,475)	-	-
Common stock, no par value; 499,900,000 shares authorized, 405,622,922 (2001) and 372,422,912 (2000) shares issued and outstanding	8,835,621	8,515,871
Accumulated deficit	(9,718,056)	(9,346,413)
Notes receivable from sale of stock	(192,250)	(117,250)
	-----	-----
Total stockholders' deficit	(1,074,685)	(947,792)
	-----	-----
	\$ 226,466	\$ 205,965
	=====	=====

</TABLE>

See accompanying notes.

<PAGE>

<TABLE>

ARETE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS

For the Three Months Ended March 31, 2001 and 2000
(Unaudited)

<CAPTION>

	2001	2000
	-----	-----
Revenues:		
<S>	<C>	<C>
Management fees - Aggression Sports (Note 2)	\$ 23,400	\$ -
Other income	18,240	-
	-----	-----
Total revenues	41,640	-
Operating expenses:		
Depreciation	3,840	-
Research and development (Note 2)	111,612	-
Rent	20,960	-
Other operating expenses	216,441	-
	-----	-----
Total costs and expenses	352,853	-
	-----	-----
Total operating income (loss)	(311,213)	-
Other income (expense):		
Equity in loss of Aggression Sports (Note 2)	(33,590)	(2,000)
Interest expense	(29,812)	(6,757)
Interest income	2,972	563
	-----	-----
Total other income (expense)	(60,430)	(8,194)
	-----	-----
Net loss from continuing operations	(371,643)	(8,194)
Net loss from discontinued operations (Note 1)	-	(70,520)
	-----	-----
Net loss applicable to common shareholders	\$ (371,643)	\$ (78,714)
	=====	=====
Basic and diluted loss per share from continuing operations	\$ *	\$ *
	=====	=====
Basic and diluted loss per share	\$ *	\$ *
	=====	=====
Weighted average common shares outstanding	393,295,000	265,404,922
	=====	=====

</TABLE>

* - Less than \$.01 per share

See accompanying notes.

<PAGE>

<TABLE>

ARETE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Three Months Ended March 31, 2001
(Unaudited)

<CAPTION>

Common stock		Accumulated
Shares	Amount	deficit
-----	-----	-----

<S>	<C>	<C>	<C>
Balance, December 31, 2000	372,422,912	\$ 8,515,871	\$(9,346,413)
Issuance of common stock for services (Note 4)	3,050,643	35,348	-
Issuance of common stock upon conversion of note payable - related party	16,649,367	84,912	-
Issuance of common stock in payment of interest on notes payable	2,000,000	30,000	-
Common stock issued upon exercise of options (Note 4)	6,500,000	65,000	-
Interest in sale of Arete common stock by equity-method investee (Note 2)	-	24,490	-
Common stock issued upon exercise of options paid for by a note receivable (Note 4)	5,000,000	80,000	-
Net loss for the quarter ended March 31, 2001	-	-	(371,643)
Balance, March 31, 2001	405,622,922	\$ 8,835,621	\$(9,718,056)

</TABLE>

See accompanying notes.

4

<PAGE>

<TABLE>

ARETE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Three Months Ended March 31, 2001 and 2000
(Unaudited)

<CAPTION>

	2001	2000
Cash flows from operating activities:		
<S> Net loss	<C> \$(371,643)	<C> \$ (78,714)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,840	116
Equity in loss of Aggression Sports	33,590	2,000
Stock issued for services and interest on notes	70,348	46,410
Note issued for services	-	-
Changes in assets and liabilities:		
Accounts receivable	-	74
Prepaid expenses	(25,289)	1,200
Accounts payable	13,887	(23,690)
Accrued expenses	104,661	4,358
Total adjustments	201,037	30,468
Net cash used in operating activities	(170,606)	(48,246)
Cash flows from investing activities:		
Investments in and advances to Aggression Sports	(73,123)	(15,548)
Maturity (purchase) of certificate of deposit	52,387	25,000
Net cash provided by (used in) investing activities	(20,736)	9,452
Cash flows from financing activities:		
Proceeds from issuance of common stock	-	64,652
Proceeds from exercise of stock options	65,000	66,000

Proceeds from note payable - related parties	63,758	-
Proceeds from note payable	100,000	-
Payments on long term debt	(50,000)	(19,500)
	-----	-----
Net cash provided by financing activities	178,758	111,152
	-----	-----
Net increase in cash and cash equivalents	(12,584)	72,358
Cash and cash equivalents at beginning of period	13,376	15,844
	-----	-----
Cash and cash equivalents at end of period	\$ 792	\$ 88,202
	=====	=====

</TABLE>

See accompanying notes.

5

<PAGE>

<TABLE>

ARETE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Three Months Ended March 31, 2001 and 2000
(Unaudited)

(Continued from preceding page)

<CAPTION>

	2001	2000
	-----	-----
Supplemental disclosure of cash flow information:		
<S>	<C>	<C>
Interest paid during the period	\$ -	\$ 507
	=====	=====
Income taxes paid during the period	\$ -	\$ -
	=====	=====

</TABLE>

Supplemental disclosure of non-cash investing and financing activities:

During the quarter ended March 31, 2000, the Company issued common stock valued at \$15,548 to employees of Aggression Sports and treated such issuance as an advance.

During the quarter ended March 31, 2001, a note payable to a related party with an outstanding balance of \$84,912 was converted into common stock.

See accompanying notes.

6

<PAGE>

ARETE INDUSTRIES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001

1. Summary of significant accounting policies

Basis of presentation:

The accompanying financial statements have been prepared by the Company, without audit. In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring accruals) necessary for a fair presentation of the financial position as of December 31, 2000 and March 31, 2001, and the results of operations and cash flows for the periods ended March 31, 2000 and 2001.

Discontinued operations:

During March 2000, the Company abandoned the direct mail and coupon business and shifted its focus toward Aggression Sports, Inc. (Aggression Sports) (see Note 2). The direct mail coupon business continued until March 2000. The Company provided executive support to help Aggression Sports get prepared to start its own operations. Aggression Sports is in the process of developing a web site to market its proprietary outdoor products.

Basis of presentation:

The financial statements have been prepared on a going concern basis which contemplates the realization of assets and liquidation of liabilities in the ordinary course of business. As shown in the accompanying financial statements, the Company has incurred significant losses and at March 31, 2001, the Company has a working capital deficit of \$1,249,039 and a stockholders' deficit of \$1,074,685. In addition, the Company is delinquent on payment of payroll taxes and creditor liabilities pursuant to the plan of reorganization, and is being investigated by the Securities and Exchange Commission for alleged securities law violations (see Note 6). As a result, substantial doubt exists about the Company's ability to continue to fund future operations using its existing resources.

2. Investment in and advances to affiliates

In prior years, the Company acquired a 31% ownership interest in Aggression Sports in exchange for 30,000,000 shares of the Company's common stock valued at \$150,000. During the three months ended March 31, 2001, Aggression Sports sold 5,690,000 shares of Arete for gross proceeds of \$79,002. Arete's 31% interest in the proceeds of \$24,490 has been recorded as additional paid-in capital.

Applied Behavior Systems, LLC:

The Company has an agreement to provide new venture management services to assist in the formation of a new company and product development process concerning several unique applications of a patented neural-networking, intelligent agent software engine in conjunction with Applied Behavior Systems, LLC (ABS), an unaffiliated company. Under the agreement, the Company is entitled to fees for management services and will receive an equity interest in this new application development company. Through March 31, 2001, the Company has advanced \$251,766 as a bridge

2. Investment in and advances to affiliates (continued)

loan to finance operations. As these advances have been used for research and development by ABS, these amounts have been recorded as research and development expenses in the accompanying financial statements. During 2001, the Company charged management fees of \$48,000 to ABS. These management fees have not been recorded as revenue at this time since collectibility is not reasonably assured.

3. Delinquent amounts payable

As of March 31, 2001, the Company is delinquent on payments of various amounts to creditors including payroll taxes and \$62,316 to creditors required to be paid under the terms of its plan of reorganization. Failure to pay these liabilities could result in liens being filed on the Company's assets and may result in assets being attached by creditors resulting in the Company's inability to continue operations.

4. Stockholders' equity

During the three months ended March 31, 2001, (1) an officer of the Company converted an \$84,912 note payable into 16,649,367 shares of the Company's common stock, (2) the Company issued 3,050,643 shares of common stock for services valued at \$35,348, (3) the Company issued 2,000,000 shares of common stock in exchange for a \$30,000 of accrued interest on a note payable and (4) the Company issued 11,500,000 shares of common stock upon the exercise of stock options. The Company also issued 10,000,000 of its common stock to be held as collateral for the payment of two notes payable with a principal balance of \$100,000 in the aggregate. These shares have not been reflected as outstanding as they are considered treasury shares.

In January 2001, the board of directors authorized the issuance of options to purchase 5,000,000 and 6,500,000 shares of common stock for \$.015 and \$.010 per share, respectively, to one individual. The 5,000,000 options were exercised in exchange for a note receivable of \$75,000 and the 6,500,000 options were exercised by reducing the balance of accrued wages payable to the individual.

5. Income taxes

The book to tax temporary differences resulting in deferred tax assets and liabilities are primarily net operating loss carryforwards of \$3,356,000 which expire in years through 2021.

A 100% valuation allowance has been established against the deferred tax assets, as utilization of the loss carryforwards and realization of other deferred tax assets cannot be reasonably assured.

The Company's net operating losses are restricted as to the amount which may be utilized in any one year.

6. Commitments and contingencies

Securities and Exchange Commission investigation:

In August 1999, the U.S. Securities and Exchange Commission (the "Commission") instituted a civil action in the Federal District Court in

8

<PAGE>

ARETE INDUSTRIES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2001

6. Commitments and contingencies (continued)

Colorado for the District of Colorado instituting an injunctive proceeding against the Company, its current CEO and former officers and directors, under Section 17(a) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, alleging that false and/or misleading information was contained in certain press releases issued by the Company in February 1998, and further citing violations of Section 15(d) of the Exchange Act and rules 15d-1 and 15d-3 for late and missing filings of periodic reports under the Exchange Act. As of the date of this report, a final order approving a consent to entry of an injunction has been entered as to the two former officers and directors in which they consented to the entry of an injunction against them without admitting or denying the factual findings of the commissions contained in the settlement offer and order and agreeing to payment of civil penalties.

Under provisions of the Company's Articles and By-laws and pursuant to the Change in Control Agreement dated April 30, 1998, in which the two former officers and directors resigned, the Company agreed to indemnify and pay legal fees and the civil penalties of these two former officers and directors which agreement has been finalized in the form of a final settlement agreement between the Company, the former officers and directors, their attorney and the current CEO, entered into in the fourth quarter of 2000.

The Company and the current CEO are presently defending this action through separate counsel, have filed responsive pleadings and have engaged in serious settlement discussions independently with the Commission. The Company has executed a settlement offer and the regional enforcement staff has transmitted it to the Commission in Washington for approval, of which there are no guarantees it will do so. The CEO and the regional enforcement staff have had serious settlement discussions and a verbal offer has been tendered for referral to and approval by the Commission, also, of which there is no assurance that the offer will be accepted. Case preparation and discovery have been put on hold pending a response from the Commission in Washington D.C.

As authorized in the Company's corporate charter, the board of directors has agreed to indemnify and advance fees and expenses to the CEO for his costs of defending this action.

<PAGE>

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

Forward Looking Statements

This Quarterly Report on Form 10-QSB includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Act provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about themselves so long as they identify these statements as forward looking and provide meaningful cautionary statements identifying important factors that could cause actual results to differ from the projected results. All statements other than statements of historical fact, including statements regarding industry prospects and future results of operations of financial position, made in this Quarterly Report on Form 10-QSB are forward looking. We use words such as "anticipates," "believes," "expects," "future" and "intends" and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. The Company's actual results may differ significantly from management's expectations. The following discussion includes forward-looking statements regarding expectations of future profitability of our business, gross margin, improvement in operating loss and sales, all of which are inherently difficult to predict. Actual results could differ significantly for a variety of reasons, including the accessibility to additional capital, the rate of growth and consumer acceptance of the Internet and online commerce, the amount that the Company invests in new business opportunities and the timing of those investments, customer spending patterns, the mix of products sold to customers, the mix of revenues derived from product sales as compared to services, and risks of fulfillment throughout and productivity. These risks and uncertainties, as well as other risks and uncertainties, could cause the Company's actual results to differ significantly from management's expectations.

General Summary

As previously reported, we embarked on a new direction of operations in the early part of 2000 of providing New Venture Management Services. The first major step in that direction was our development of Aggression Sports, Inc., d/b/a Arete Outdoors during the first quarter 2000 followed late in the second quarter 2000 with our next opportunity, Applied Behavior Systems, LLC. with its SpeechTeach Technology, which evolved into the initiative to create Seventh Generation Technologies, Inc. as a vehicle to pursue development of an intelligent robotics operating system. Since launching these initiatives, we have made a substantial investment in these businesses, but have encountered difficulty in raising further needed development capital, and/or establishing a revenue base which would sustain operations. In order to preserve the viability of these investments and meet our commitments, we have terminated supporting ongoing operations for these ventures financially until alternative resources and opportunities can be developed, of which there can be no assurance made at this time.

In the last half of 2000, the management team rapidly transformed the Company with investments in, and management services contributed to, several promising companies and projects. The next step in Arete Industries' development is to begin a program that management has coined as the 'Dividend Program'. The

Dividend Program is intended to provide an attractive investment vehicle for professional investors to invest in the Company's current development projects and in future portfolio companies the Company may identify for acquisition in the future. The Dividend Program is also intended to distribute direct ownership to the shareholders in the Company's future mergers, acquisitions and investments. Management believes that the Program will also attract promising new acquisition opportunities by offering the entrepreneurs and investors a near-term path to liquidity in the public markets through a registered public spin-off and/or rights offering to Arete's shareholders.

Outdoors Equipment: Arete Outdoors.

During the fourth and first quarters of 2000 and 2001 respectively, we executed the first production and marketing season for our two products, the Rush Downhiller snow scooter and our SnowFangs. The Rush was marketed to mountain ski resorts across the country and introduced to the Colorado ski resort Copper Mountain and by January 2001, was on the slopes of this popular ski resort. Initial feed back from those renting the Rush was very favorable. People of all down hilling skill levels using the Rush found it easy to operate, fun and unique. The snowshoe was marketed through traditional wholesale channels to high-end mountaineering shops through several representative groups in the US and Europe. Feedback from users who tried the snowshoe was very positive, while we missed most of the selling season due to design and production delays. Finally, to develop a more stable and low cost source of revenue, we hired a marketing and sales manager in November of 2000, to initiate a program of distributing and selling third party outdoor products into the traditional wholesale/retail market.

The combination of lower than expected sales revenues and higher development costs created a situation which reasonably, in our opinion, supports our determination to seek alternative ways of generating revenues from Arete Outdoors. With a view toward maximizing the developed Rush and SnowFangs snowshoe and several other products we have taken steps to cease incurring further costs and the process of seeking other investors/partners. Part of this process included terminating our existing arrangements with Michael Lowe subsequent to the end of the first quarter. We are also seeking outside buyers or strategic partners to continue marketing and development of our products, including the Rush and SnowFangs snowshoe. Patent applications have been filed on the Rush and SnowFangs. We will examine the benefits of seeking patent protection of the other products.

10

<PAGE>

We are optimistic about this phase as preliminary discussions with several national outdoor equipment manufacturers have yielded exploratory interest. We plan to make the web site Adventure Travel Services available with this transition as well.

The current financial statements contained herein treat subsidiary Aggression Sports, Inc. (d/b/a Arete Outdoors) on a non-consolidated basis, i.e. as an investment.

II. Patented Intelligent Agent Software

Applied Behavior Systems, LLC, ("ABS") has developed a patented intelligent agent software that has unique applications for language learning, voice recognition, vision recognition and intelligent robotics. In June 2000 we entered a New Venture Management Services with ABS which agreed to pay Arete \$16,000 per month. The services include accounting, management services, office facilities with common computer and telephone network services. In November 2000, we entered into an agreement with ABS to form a new company, subsequently called Seventh Generation Technologies, Inc. ("7GT"), which would expand the relationship beyond bringing to market a new teaching software for children with developmental learning disabilities called "Speech Teach" to include the development of self training software for robots. The new agreement permits exploration and utilization of this software for applications beyond education and language. The agreement is with 7GT (Seventh Generation Technologies, Inc, f/k/a VerbalTech Labs, Inc.). 7GT has opened and conducted several meetings with outside investors and interested potential industrial users of this type of technology. 7GT has carried its development of the adaptive capabilities of the new software to the point it is actively seeking outside investor and partnering. Initial efforts to develop the software for this new application point to the realistic ability to instruct a robotic operation verbally. To carry development of this software application further outside funding is necessary, as well as a potential refocusing of 7GT to only the development of the robotic software. For prudent business reasons cost cutting steps to maintain its market viability have been implemented, including reduced payroll.

III. Other Opportunities

Subsequent event. In April 2001, we formed a new company called Eagle Capital Funding Corp. This new business will help local municipalities and county agencies fund construction projects in the state of Colorado. The Tabor Amendment, passed in Colorado in the mid-1990's, creates the niche this new opportunity fills. The Tabor Amendment requires any governmental entity in the state of Colorado to obtain voter approval for certain types of expenditures. For example, the Tabor Amendment prohibits cities, counties or the state from issuing bonds or raising taxes absent voter approval. This places a significant burden on governing bodies when attempting to carry out their duties particularly as regards large capital development projects such as new building construction. Colorado, and especially cities/counties from Greeley to Pueblo (a/k/a the "Front Range") are experiencing rapid growth and development. In an effort to satisfy the governing needs to manage this growth, alternative means of funding capital expenditures has become important. Gerald J. Brandimarte has been brokering such financing options for several years. Mr. Brandimarte, recently pursued this business with a small front-range commercial construction firm, sought to pursue this business independently. Our New Venture Management Services offer him such an opportunity. We will provide Mr. Brandimarte with office support, namely accounting, telephone answering, etc., in return for a percentage of gross revenues on all deals closed and funded. An agreement dated effective April 16, 2001 was entered into by the Company with Mr. Brandimarte.

Employees:

Arete Industries, Inc. has seven full time employees, Outdoors has no employees and ABS has two employees.

Financial Condition

The Company had a working capital deficit as of March 31, 2001, of \$1,249,039. This compares to a working capital deficit of \$1,061,963 at December 31, 2000. Losses were partially funded with accrued salaries and shares issued for

services. During the 3-month period ended March 31, 2001, the Company issued 3,050,643 shares of common stock for services.

Results of Operations

The Company's financial performance has been stabilized by the termination of its co-op coupon business, and the execution of the New Venture Management Services strategy has not yet developed into significant financial results.

The Company's operating revenues for the three months ended March 31, 2001 was \$41,640, net of an additional \$18,600 charged to Aggression Sports, Inc., which amount has been eliminated in the preparation of the financial statements.

For the quarter ended March 31, 2001, the Company incurred \$352,853 in operating expenses. The Research and Development line item of \$111,612 represents money advanced to ABS, LLC. Following the end of the first quarter 2001, the Company stopped funding operations of Aggression Sports, Inc. except to protect or preserve the value of its assets or to take advantage of business opportunities it may encounter to exploit its assets. The Company also has ceased funding operations of ABS, LLC. The Company's future expectation is that these expenses will not increase except commensurate with an increase in revenue from its management services.

11

<PAGE>

Liquidity and Capital Resources

At this time we are seeking buyers and/or investors for Arete Outdoors to move the products into the mainstream markets in the US and Europe. Capital received from sale of this operation to investors will be used to liquidate expenses incurred in developing the products, Rush and SnowFangs snowshoes to production. The Company anticipates the sales proceeds will be adequate to resolve primary obligations.

The Company had a stockholder's deficit at March 31, 2001 of \$1,074,685. This is compared to a stockholder's deficit at December 31, 2000 of \$947,792. The stockholder's deficit increased due to the Company's operating at a loss.

Management believes its New Venture Management Services strategy, despite recent adverse events, is appropriate for ultimate viable financial success of the company. Despite limited working capital for the Company's new business incubation initiatives, Management is committed to forging ahead toward positioning itself to attract larger sources of financing to improve its infrastructure. Management is resolved to continue to support the Company and its incubator partners as long as it is able to generate positive cash flow to finance growth and retire debt within the near term, of which there is no assurance. Due to the current financial condition of the Company and the volatility in the market for the Company's common stock, no assurance can be made that the Company will be successful in raising any substantial amount of capital through the sale of equity securities, or with bank debt on favorable terms in the near future. Never the less, due to such conditions, the Company may be required to issue further common stock to pay executives, consultants and other employees, which may have a continuing dilutive effect on other shareholders of the Company. Failure of the Company to acquire additional capital in the form of either debt or equity capital will most likely impair the

ability of the Company to meet its obligations in the near or medium term.

At March 31, 2001, the Company had no material commitments for capital expenditures.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

During the Period ended March 31, 2001, there were no material legal proceedings initiated by or against the Company or any of its officers, directors or subsidiaries.

Item 2. Changes in Securities

- (a) Changes in Instruments Defining Rights of Security Holders. Previously reported.
- (b) Not Applicable
- (c) Item 701 Reg. SB. - The following were the unregistered shares of common stock sold by the registrant during the period covered by this report.

None

Item 3. Defaults Upon Senior Securities.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K

The following exhibits are attached:

Exhibit No.	Description
----- --	----- NONE

There were no Reports on Form 8-K filed during the period covered by this report.

<PAGE>

SIGNATURES

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

ARETE INDUSTRIES, INC.

Date: May 22, 2001

By: /s/ Thomas Y. Gorman, CFO

Thomas Y. Gorman, CFO
Principal Financial and Accounting Officer