

**FORM 10-QSB - 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

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

For the period ended: March 31, 2002

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)

<u>Colorado</u>	<u>84-1508638</u>
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

<u>2955 Valmont Road, Suite 300, Boulder, CO</u>	<u>80301</u>
(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 May 15, 2002, Registrant had 498,325,562 shares of common stock, No par value, outstanding. This number includes 10,000,000 shares considered unissued for accounting purposes which are held as collateral for notes payable by the Company to non-affiliated parties.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY

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ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
December 31, 2001 and March 31, 2002
(Unaudited)

	<u>2001</u>	<u>2002</u>
Current assets:		
Cash and cash equivalents	\$ 110	\$ 463
Accrued interest receivable	11,503	14,730
Inventory	65,029	65,029
Prepaid expenses	<u>3,509</u>	<u>2,167</u>
Total current assets	80,151	82,389
Furniture and equipment, at cost net of accumulated depreciation of \$49,547 (2001) and \$57,649 (2002)		
	124,822	116,720
Security deposit	12,598	14,119
Intellectual property	34,516	34,516
Investment in and advances to Applied Behavior Systems, LLC (Note 2)	-	-
Investment in and advances to Aggression Sports (Note 2)	<u>-</u>	<u>-</u>
	<u>\$ 252,087</u>	<u>\$ 247,744</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable (Note 3)	\$ 411,849	\$ 409,342
Accrued expenses	852,323	886,518
Accrued payroll taxes (Note 3)	289,128	286,428
Settlement due	18,650	18,650
Notes payable (Note 4)	100,000	100,000
Notes payable - related parties (Note 4)	165,568	182,557
Total current liabilities	1,837,518	1,883,495
Commitments and contingencies (Notes 1, 3 and 4)		
Stockholders' deficit:		
Convertible Class A preferred stock; \$10 face value, 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, no par value; 499,000,000 shares authorized, 488,325,562 shares issued and outstanding	9,074,130	9,074,130
Accumulated deficit	(10,440,741)	(10,491,061)
Notes receivable from sale of stock	<u>(218,820)</u>	<u>(218,820)</u>
Total stockholders' deficit	<u>(1,585,431)</u>	<u>(1,635,751)</u>
	<u>\$ 252,087</u>	<u>\$ 247,744</u>

See accompanying notes.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS
For the three months ended March 31, 2001 and 2002
(Unaudited)

	<u>2001</u>	<u>2002</u>
Revenues:		
Management fees - Aggression Sports	\$ 23,400	\$ -
Sales	-	379
Other income	<u>18,240</u>	<u>-</u>
Total revenues	41,640	379
Operating expenses:		
Depreciation	3,840	8,102
Research and development	111,612	-
Rent	20,960	9,804
Other operating expenses	<u>216,441</u>	<u>34,247</u>
Total operating expenses	<u>352,853</u>	<u>52,153</u>
Total operating loss	(311,213)	(51,774)
Other income (expense):		
Equity in loss of Aggression Sports (Note 2)	(33,590)	-
Minority interest in Aggression Sports loss (Note 2)	-	2,522
Interest expense	(29,812)	(4,296)
Interest and miscellaneous income	<u>2,972</u>	<u>3,228</u>
Total other income (expense)	<u>(60,430)</u>	<u>1,454</u>
Net loss (Note 5)	<u>\$ (371,643)</u>	<u>\$ (50,320)</u>
Basic and diluted loss per share from continuing operations	<u>\$ *</u>	<u>\$ *</u>
Basic and diluted loss per share	<u>\$ *</u>	<u>\$ *</u>
Weighted average common shares outstanding	<u>393,295,000</u>	<u>488,326,000</u>

* - Less than \$.01 per share

See accompanying notes.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATE STATEMENT OF STOCKHOLDERS' DEFICIT

For the three months ended March 31, 2002

(Unaudited)

	<u>Common stock</u>		<u>Accumulated deficit</u>
	<u>Shares</u>	<u>Amount</u>	
Balance, December 31, 2001	488,325,562	\$ 9,074,130	\$ (10,440,741)
Net loss for the three months ended March 31, 2002	-	-	(50,320)
Balance, March 31, 2002	<u>488,325,562</u>	<u>\$ 9,074,130</u>	<u>\$ (10,491,061)</u>

See accompanying notes.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
For the three months ended March 31, 2001 and 2002
(Unaudited)

	<u>2001</u>	<u>2002</u>
Cash flows from operating activities:		
Net loss	\$ (371,643)	\$ (50,320)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,840	8,102
Equity in loss of Aggression Sports	33,590	-
Stock issued for services and interest on notes	70,348	-
Changes in assets and liabilities:		
Interest receivable	-	(3,227)
Prepaid expenses	(25,289)	1,342
Accounts payable	13,887	(2,507)
Accrued expenses	<u>104,661</u>	<u>31,495</u>
Total adjustments	<u>201,037</u>	<u>35,205</u>
Net cash used in operating activities	(170,606)	(15,115)
Cash flows from investing activities:		
Investments in and advances to Aggression Sports	(73,123)	(1,521)
Maturity of certificate of deposit	52,387	-
Net cash used in investing activities	(20,736)	(1,521)
Cash flows from financing activities:		
Proceeds from exercise of stock options	65,000	-
Proceeds from note payable - related parties	63,758	16,989
Proceeds from note payable	100,000	-
Payments on long term debt	<u>(50,000)</u>	<u>-</u>
Net cash provided by financing activities	<u>178,758</u>	<u>16,989</u>
Net increase (decrease) in cash and cash equivalents	(12,584)	353
Cash and cash equivalents at beginning of period	<u>13,376</u>	<u>110</u>
Cash and cash equivalents at end of period	<u>\$ 792</u>	<u>\$ 463</u>

(Continued on following page)
See accompanying notes.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
For the three months ended March 31, 2001 and 2002
(Unaudited)

(Continued from preceding page)

Supplemental disclosure of cash flow information:	<u>2001</u>	<u>2002</u>
Interest paid during the period	\$ _____ -	\$ _____ -
Income taxes paid during the period	\$ _____ -	\$ _____ -

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.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002

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, 2001 and March 31, 2002, and the results of operations and cash flows for the periods ended March 31, 2001 and 2002.

Operations:

The Company provided executive support to help Aggression Sports, Inc. (Aggression Sports) (see Note 2) 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, 2002, the Company has a working capital deficit of \$1,801,106 and a stockholders' deficit of \$1,635,751. In addition, the Company is delinquent on payment of payroll taxes and creditor liabilities pursuant to the plan of reorganization. As a result, substantial doubt exists about the Company's ability to continue to fund future operations using its existing resources.

On December 19, 2001, by board resolution pursuant to a subscription agreement, the board of directors designated 25,000 of Class A Preferred Stock as Series 2 Convertible Preferred Stock, in a proposed placement of up to \$200,000 of such preferred stock at \$10 per share face value. As of May 15, 2002, the Company received proceeds of \$28,000 for the subscription of 2,800 shares of Series 2 Convertible Preferred Stock.

2. Investment in and advances to affiliates

Aggression Sports:

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 June 30 and March 31, 2001, Aggression Sports sold 550,000 and 5,690,000 shares, respectively of Arête for gross proceeds of \$82,362.

During May 2001, the Company agreed to buy out the 30% share of Aggression Sports owned by the creator of Aggression's products for \$40,000 worth of the Company's stock to be issued over a four-month period. As of September 30, 2001, 8,000,000 shares of common stock were issued and the Company had a remaining liability of \$15,650. The Company has recorded an impairment in the value of this investment.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002

2. Investment in and advances to affiliates (continued)

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 earned fees for management services and is entitled to receive an equity interest in this new application development company. Through December 31, 2001, the Company has advanced \$260,672 as a bridge 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 \$81,419 to ABS. These management fees have not been recorded as revenue at this time since collectibility is not reasonably assured. During May 2001, the Company ceased funding ABS's operations.

3. Delinquent amounts payable

As of March 31, 2002, 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. Notes payable

Notes payable – individuals:

During January 2001, the Company borrowed \$100,000 from two unrelated individuals evidenced by a note bearing no interest, payable on June 15, 2002, but callable initially on January 15, 2001, and then on July 15, 2001. The Company issued 2,000,000 shares of its common stock as consideration for the loans and 10,000,000 shares of its common stock to be held as collateral for payment of the loans. The loans were not paid by June 15, 2001, therefore, the lenders have the option of retaining the collateral shares in full payment of the notes. The Company's Chief Executive Officer also transferred 1,500,000 shares of common stock owned personally to the note holders as additional consideration for the transaction.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002

4. Notes payable (continued)

Notes payable – related parties:

During 2000, an officer of the Company and a company owned by the Company's Chief Executive Officer loaned to the Company \$17,957 and \$116,700, respectively, evidenced by notes payable. During 2001, three officers of the Company and a company owned by the Company's Chief Executive Officer loaned to the Company \$171,634 and \$40,264, respectively, evidenced by notes payable. The notes are due upon demand, bear interest at 9.5% to 10% per annum and are unsecured.

During 2001, the three officers of the Company applied note payable balances of \$202,200 and issued a note payable to the Company of \$21,213 to exercise options representing 53,500,000 shares of common stock.

During 2002, an officer of the Company and a company owned by the Company's Chief Executive Officer loaned \$16,989 to the Company.

5. Income taxes

The book to tax temporary differences resulting in deferred tax assets and liabilities are primarily net operating loss carryforwards of \$3,967,000 which expire in years through 2022.

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 reasonable assured.

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

6. Subsequent events

On December 19, 2001, by board resolution pursuant to a subscription agreement, the board of directors designated 25,000 of Class A Preferred Stock as Series 2 Convertible Preferred Stock, in a proposed placement of up to \$200,000 of such preferred stock at \$10 per share face value. As of May 15, 2002, the Company received proceeds of \$28,000 for the subscription of 2,800 shares of Series 2 Convertible Preferred Stock.

Item 6-Management's Discussion and Analysis

Critical accounting policies:

The Company has identified the accounting policies described below as critical to its business operations and the understanding of the Company's results of operations. The impact and any associated risks related to these policies on the Company's business operations is discussed throughout this section where such policies affect the Company's reported and expected financial results. The preparation of this Annual Report requires the Company to make estimates and assumptions that affect the reported amount of assets and liabilities of the Company, revenues and expenses of the Company during the reporting period and contingent assets and liabilities as of the date of the Company's financial statements. There can be no assurance that the actual results will not differ from those estimates.

Stock issuances:

The Company has relied upon the issuance of shares of its common stock, options to purchase its common stock and preferred stock to fund much of the Company's operations. The following describes the methods used to record various stock related transactions.

Stock issued for services is valued at the market price of the Company's stock at the date of grant.

Compensation related to the issuance of stock options to employees and directors is recorded at the intrinsic value of the options, which is the market price of the Company's common stock less the exercise price of the option at the measurement date. The Company's common stock issued to consultants is recorded at the market price of the Company's common stock at the measurement date. The measurement date is generally the date the options are fully vested.

Revenue recognition:

The Company has provided management services to companies in the process of developing new products with no operations. These management fees have not been recorded as revenue at this time since collectibility is not reasonably assured.

Research and development:

The Company has also advanced funds to these start-up companies. As the start-up companies have used these advances for research and development, these amounts have been recorded as research and development expense in the Company's financial statements.

Overview.

The Company has revised its business development focus from new venture management, requiring substantial overhead in the form of senior management associates and office support toward the development of new business opportunities with established management and business models, proven market for products, an existing customer and revenue base, and high growth potential. Management desires to engage in relationships with businesses which have exhibited sufficient managerial, financial and operational maturity to rapidly grow beyond the development stage as self sustaining businesses with only nominal additional capital and input from the Company or investors which it may be able to attract on behalf of these businesses. The current objective is to emulate the structure and activities of a publicly held Business Development Corporation (“BDC”).

To achieve this objective, the Company must resolve internal issues including reducing its overhead, resolving outstanding liabilities and maximize its potential to achieve a return on its past investments. Refusing to abandon these ventures entirely, Management is considering a spin-off of Aggression Sports, Inc. through a registered rights offering and possibly certain contingent intellectual property and contract rights from its Applied Behavior Systems and Seventh Generation Technologies venture into separate, independent public companies with their own management teams and investors, in which the shareholders of the Company will continue to participate through the spin-offs.

During early 2001, the Company continued its efforts to develop a revenue stream from management services and building equity ownership in its portfolio of new entrepreneurial opportunities while initiating the process of reduction of its overhead and initiating a search for investment opportunities in more advanced stages of development and with better business fundamentals. In prior periods, revenue and equity was created from opportunities that were developed in-house, but the Company’s in-house projects ran out of money and the Company could not secure the next round of financing for itself and its incubated companies, nor due to deteriorating economic conditions experienced in the second half of 2001 carrying over to 2002, was it able to close acquisition and funding of certain new opportunities, in particular a new capital funding subsidiary created to conduct construction and bond financing for opportunities, entitled Eagle Capital Funding Corp. (“Eagle Capital.”) Due to the termination or postponement of certain projects scheduled for closing after the terrorist attacks of September 11, 2001 on the World Trade Center, the individual sponsoring this opportunity took on employment for a Wall Street investment bank and the initiative was put on hold by the Company, hoping to find a new opportunity for this subsidiary.

In response to continuing adverse conditions and to address the current investment environment that favors investments with earnings, cash flow, management and growth potential, the Company continues to take actions to reposition itself to execute its revised business plan, by reducing its operating overhead and settling and/or mediating its outstanding obligations with a view to effecting a recapitalization, preserving its existing assets and becoming attractive to sources of new capital and acquisition opportunities.

During the quarter ended March 31, 2002, the Company ended its lease on its office space in Boulder, Colorado running at approximately \$4,800 per month, and signed a new, short term lease for the smaller suite in the same building for approximately 1,200 square feet at a monthly rental of \$1,986 for six months from March 1, 2002, with options to negotiate a longer term thereafter or go on a month to month basis. Also, the Company has only one salaried employee, its CEO, who continues to defer his salary and the Company's CFO works part-time on an as needed/hourly basis. The Company also has retained its newest board member as a financial and business consultant on an outside contractor basis for assistance in corporate operations, recruitment of business opportunities and financial analysis.

In December of 2001, the Company entered into a letter of intent to create a subsidiary to acquire the interests of William W. Stewart in certain minor league sports franchise development projects. This agreement also included retaining Mr. Stewart as a consultant and his appointment onto the board of directors of the Company. The agreement also included the transfer of Eagle Capital (prior to initiation of operations) to Mr. Stewart and the granting of a subscription agreement to Eagle Capital to purchase up to \$200,000 in face value of a new series of the Company's Class A Convertible Preferred Stock. During April 2002, Eagle Capital funded approximately \$28,000 of its subscription, which funds have been advanced to pay Company expenses including rent, auditing and Edgar filing expenses. During the period ended March 31, 2002, the Company's operations continued to be funded principally by cash infusions from insiders, by management deferring its salaries, and issuances of common stock for services. Management anticipates that ongoing expenses for the short term will be covered by proceeds of its current private placement to Eagle Capital to be replaced by revenues from operations as it executes its business plan as a Business Development Company.

The principal challenges facing the Company in accomplishing its stated objectives are in resolving its liabilities and acquiring immediate operating capital to effect the proposed recapitalization and spin-off transactions. This is complicated by the fact that the Company has reached the limit of its authorized capital stock and cannot issue new equity without obtaining permission of its shareholders to recapitalize or authorize additional capital. Therefore, in addition to negotiating conversion of existing debt and accrued employee compensation into equity, Management will be required to raise sufficient funds to pay its ongoing operating expenses and to cover the expenses of holding its next annual shareholders meeting as soon as possible, neither of which can be assured at this time. Management has deferred their salaries to date and the CEO has continued to advance funds to defer certain ongoing expenses of the Company pending receipt of additional subscription proceeds from Eagle Capital.

Financial Condition

As of March 31, 2002, the Company had \$ 247,744 in total assets and \$1,883,495 in total liabilities, as compared to \$252,087 and \$1,837,518 at the end of fiscal year ended December 31, 2001, respectively. Accounts payable and accrued expenses at March 31, 2002 were \$1,582,288 as compared to \$1,553,300 at December 31, 2001. The increase

during the first quarter of 2002, of \$28,988 is attributable to increases in accrued salaries. Losses were partially funded through increased accounts payable and by accruing or deferring salaries.

The Company's subsidiary, Global Direct Marketing Services, Inc., which is now inactive, has left an obligation of trade payables of \$87,625 and unpaid 1999 payroll taxes of \$46,897 remaining from its printing and direct mail advertising business. The Company owes approximately \$79,000 in unpaid Federal payroll taxes for calendar years 1995 through 1997 including penalties and interest. The Company owes approximately \$65,858 in 2000 and \$97,373 in 2001, respectively, in accrued payroll taxes, including penalties and interest.

During the period ended March 31, 2002, the Company continued to rely upon infusions of cash from loans and cash advances by executives of the Company. The proceeds were used for overhead, payment of corporate obligations and business development activities. As of March 31, 2002, additional executive salaries of \$29,900 and cash advances of \$16,989 have been accrued and salaries of \$439,372 and bonuses of \$381,860, which were accrued as of December 31, 2001, remain unpaid.

Results of operations

The company's operations during the first quarter of 2002 have been confined to business development activities of its officers, directors and consultants, and administrative bookkeeping tasks related to creditor and investor relations and securities act compliance. The Company is not providing new venture management or advisory activities and therefore not generating revenue from executive and management services.

For the quarter ended March 31, 2002, the Company incurred \$52,153 in operating expenses. This included accruals of deferred executive salaries of \$29,900, rent of \$9,804 and other operating expenses of \$12,449 including consulting, bookkeeping, shareholder communication, transfer agent fees, accounting and auditing expenses and internet, computer repair and network maintenance. The Company was successful in reducing its rental expense by negotiating out of its larger space and moving to a smaller suite in the same building, reducing its monthly rental to \$1,968 for office. The Company continues to rent storage space for its files, inventory and excess office equipment. During the period ended March 31, 2002, to facilitate its move out of its larger office space, donated most of its excess office furniture to a non-profit foundation in Boulder, Colorado. We envision operating the Company as a holding company in the future for other going concerns and revenue generating businesses, which will require minimal staff for accounting and administrative matters. Our future expectation is that monthly operating expenses will remain as low as possible until new opportunities are initiated, of which there can be no assurance, in which event, the operating costs of the Company may increase relative to the need for administrative and executive staff and overhead to provide support for these new business entities.

Total other income (expense) of \$1,454 included \$3,228 in interest and miscellaneous income, an interest expense of \$4,296 resulting in a net loss from operations of \$50,320.

Liquidity and Capital Resources

The Company has a working capital deficit as of March 31, 2002 of \$1,801,106. This compares to a working capital deficit of \$1,757,367 as of December 31, 2001. The \$43,739 increase in working capital deficit for quarter ended March 31, 2002 is attributable to an increase of \$34,195 in accrued expense from \$852,323 for the fiscal year ended December 31, 2001, a decrease of \$2,507 in accounts payable from \$411,849 for the fiscal year ended December 31, 2001, a decrease of \$2,700 in accrued payroll taxes from \$289,128 (fye 2001) and an increase of \$16,989 in notes payable – related parties from \$165,568 at December 31, 2001. During the quarter ended March 31, 2002, no shares of common stock were issued.

The Company had a stockholder's deficit at March 31, 2002 of \$1,635,751. This is compared to stockholder's deficit at December 31, 2001 of \$1,585,431. The stockholder's deficit increased due to the Company's operating at a loss.

Due to its recent liquidity issues, the Company has defaulted on several short term obligations including for its operating overhead, trade payables, and state and federal employment taxes, resulting in tax liens being imposed on the Company's assets, which will have to be resolved with an infusion of new capital, of which no assurances can be made.

At March 31, 2002, the Company had no material commitments for capital expenditures.

The Company finds itself in a highly illiquid situation with few assets and no revenue to fund ongoing operations. The Company has relied on loans from insiders and deferral of salary and compensation by its employees. The Company's current business plan will require minimal funds for overhead and for maintaining its financial reporting obligations. Due to the illiquidity in the Company's public trading market and the investment environment in general, the Company's ability to raise additional capital publicly or privately to launch its current business plan in the near term is severely limited. The Company continues because its principal officers continue to support the Company on a deferred compensation basis.

The Company has insufficient authorized and unissued common shares to allow conversion and exercise of outstanding common stock options and conversion rights of preferred stock which has been reserved for issuance to insiders in exchange for their accrued cash advances, and for issuance in a private placement of up to \$200,000 in Series 2 Convertible Preferred stock, which the Company is currently conducting to an affiliated entity. As of April 30, 2002, the Company had raised \$28,000 in gross proceeds of this private placement and had 2,800 outstanding shares of Series 2 Convertible Preferred. The Company has agreed to a specific use of the first proceeds of this offering including paying its auditing costs. The Company has committed another \$25,000 to pay the costs of holding its next annual meeting and other specified expenses.

Management believes that the Company will experience significant difficulty raising additional capital or attracting viable acquisition candidates until these matters have been resolved and the Company has eliminated a substantial amount of its outstanding debt.

Due to the current financial condition of the Company and the volatility in the market for its 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 or debt securities, or with bank debt on favorable terms in the near future. Due to such conditions the Company may continue to be required to issue further 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 future or medium term.

Subsidiaries/Employees:

Arete Industries, Inc. has one full time employee, and its subsidiary, Aggression Sports, Inc. presently has no employees other than its acting president, the Company's current CEO. Seventh Generation Technologies, Inc. has no operations and has no employees. Eagle Capital Funding Corp. has had no operations since inception and the entity was transferred in total to Mr. Stewart. The CEO remains on a deferred salary basis and its CFO is being paid on an as needed-hourly or project-by-project basis. Mr. Stewart, the Company's new director has been retained on an independent contractor basis as a business consultant for any projects he is requested to complete on behalf of the Company.

Additionally, we are continuing to seek revenue generating activities for Arete Outdoors including finding manufacturing and/or marketing partners for our developed products, and are hoping to recruit a new management team and investors focused on growing this company through acquisition of young outdoor sports companies, neither of which is currently in place nor can be assured with any degree of certainty.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

During the Period ended March 31, 2002, there were no material legal proceedings initiated by or against the Company or any of its officers, directors or subsidiaries.

During the third quarter of 2001, the Company concluded its defense of an SEC enforcement action brought in the Federal District Court for the District of Colorado, for violations under Section 15d of the '33 Act and Section 10b including Rule 10b-5 of the '34 Act against the Company, one of its current officers and two former officers and directors through settlement of the action by consenting to the entry of an administrative Cease and Desist Order without admitting or denying the findings and conclusions made by the SEC. No financial sanctions or professional bars were imposed on the Company

or the current officer in the settlement. The SEC previously settled this matter with the former officers and directors through the imposition of financial sanctions and an injunction from future violations of the anti-fraud provisions of the federal securities laws.

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

There are no Exhibits filed herewith.

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

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 20, 2002

By: /s/ Thomas Y. Gorman, CFO

Thomas Y. Gorman, CFO

Principal Financial and Accounting Officer