

**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, 2005

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 33-16820-D

ARETE INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Colorado

State or other jurisdiction of  
incorporation or organization

84-1508638

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

7102 La Vista Place, Suite 100, Niwot, CO 80503

(Address of principal executive offices)

(Zip Code)

(303) 652-3113

(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 11, 2005, Registrant had 223,978,438 shares of common stock, No par value, outstanding.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES

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**ARETE INDUSTRIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Entity)**  
**CONSOLIDATED BALANCE SHEET**  
**December 31, 2004 and March 31, 2005**  
**(Unaudited))**

	<u>2004</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 121	\$ 881
Prepaid expenses	<u>3,000</u>	<u>51,000</u>
Total current assets	3,121	51,881
Furniture and equipment, at cost net of accumulated depreciation of \$15,704 (2004) and \$16,296 (2005)	<u>3,969</u>	<u>3,377</u>
	<u>\$ 7,090</u>	<u>\$ 55,258</u>
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Current liabilities:		
Accounts payable (Note 2)	\$ 262,019	\$ 269,815
Accrued expenses	368,508	368,908
Accrued payroll taxes (Note 2)	289,363	289,363
Settlement due	18,650	18,650
Notes payable - related parties	<u>3,437</u>	<u>61,187</u>
Total current liabilities	941,977	1,007,923
Commitments and contingencies (Notes 1, and 2)		
Stockholders' deficit (Notes 5 and 6):		
Common stock, no par value; 499,000,000 shares authorized, 183,045,768 (2004) and 201,740,632 (2005) shares issued and outstanding	11,811,498	11,904,440
Accumulated deficit (including \$1,484,344 accumulated during the development stage)	(12,523,565)	(12,634,285)
Notes receivable from sale of stock	<u>(222,820)</u>	<u>(222,820)</u>
Total stockholders' deficit	<u>(934,887)</u>	<u>(952,665)</u>
	<u>\$ 7,090</u>	<u>\$ 55,258</u>

See accompanying notes

**ARETE INDUSTRIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Entity)**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**For the three months ended March 31, 2004 and 2005**  
**and from inception (August 1, 2003 to March 31, 2005)**  
**(Unaudited)**

	<u>2004</u>	<u>2005</u>	<u>Inception to March 31, 2005</u>
Operating expenses:			
Depreciation	\$ 372	592	\$ 3,168
Rent	3,125	3,170	25,748
Other operating expenses	<u>531,976</u>	<u>106,271</u>	<u>1,487,411</u>
Total operating expenses	<u>535,473</u>	<u>110,033</u>	<u>1,516,327</u>
Total operating loss	(535,473)	(110,033)	(1,516,327)
Other income (expense):			
Loss on Sale of Investments	-	-	(10,502)
Interest expense	(4,192)	(687)	(37,098)
Interest and miscellaneous income	<u>3,282</u>	<u>-</u>	<u>13,129</u>
Total other income (expense)	<u>(910)</u>	<u>(687)</u>	<u>(34,471)</u>
Net loss from continuing operations	(536,383)	(110,720)	(1,550,798)
Extinguishment of Debt (Note 2)	<u>31,167</u>	<u>-</u>	<u>54,054</u>
Net loss (Note 3)	<u>\$ (505,216)</u>	<u>\$ (110,720)</u>	<u>\$ (1,496,744)</u>
Basic and diluted loss per share from continuing operations	<u>\$ (0.01)</u>	<u>\$ *</u>	<u>\$ (0.01)</u>
Basic and diluted loss per share	<u>\$ *</u>	<u>\$ *</u>	<u>\$ (0.01)</u>
Weighted average common shares outstanding	<u>103,400,000</u>	<u>190,600,000</u>	<u>140,000,000</u>

\* Less than \$.01 per share

See accompanying notes

**ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Entity)**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT**  
**For the three months ended March 31, 2005**  
**(Unaudited)**

	<u>Common stock</u>		<u>Accumulated deficit</u>
	<u>Shares</u>	<u>Amount</u>	
Balance, December 31, 2004	183,045,768	\$ 11,811,498	\$ (12,523,565)
Exercise of stock options (Note 5)	1,000,000	6,000	-
Issuance of common stock to employees and consultants for services (Note 5)	16,724,864	81,592	-
Purchase of stock by directors in connection with granted purchase rights	970,000	5,350	-
Net loss for the three months ended March 31, 2005	<u>-</u>	<u>-</u>	<u>(110,720)</u>
Balance, March 31, 2005	<u>201,740,632</u>	<u>\$ 11,904,440</u>	<u>\$ (12,634,285)</u>

See accompanying notes

# ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES

(A Development Stage Entity)

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended March 31, 2004 and 2005  
and from inception (August 1, 2003 to March 31, 2005)  
(Unaudited)

	<u>2004</u>	<u>2005</u>	<u>Inception to March 31, 2005</u>
Cash flows from operating activities:			
Net loss	\$ (505,216)	\$ (110,720)	\$ (1,496,744)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	372	592	3,168
Stock and options issued for services and interest on notes	518,810	81,592	1,283,684
Changes in assets and liabilities:			
Interest receivable	(3,283)	-	44,325
Inventory	-	-	25,243
Prepaid expenses	-	(48,000)	(51,000)
Accounts payable	(44,623)	7,796	(45,455)
Accrued expenses	(228,430)	400	(207,990)
Total adjustments	<u>242,846</u>	<u>42,380</u>	<u>1,051,975</u>
Net cash used in operating activities	(262,370)	(68,340)	(444,769)
Cash flows from investing activities:			
Purchase of property and equipment	(5,071)	-	(5,072)
Purchase of Stock Investments	(55,268)	-	-
Net cash provided (used) by investing activities	(60,339)	-	(5,072)
Cash flows from financing activities:			
Proceeds from issuance of preferred stock	-	-	6,713
Proceeds from issuance of common stock	-	5,350	15,350
Proceeds from exercise of stock options	71,000	6,000	131,250
Note Receivable from sale of stock	15,000	-	16,000
Payment of accrued wages	232,250	-	232,250
Payment of note payable - related parties	(11,573)	57,750	49,041
Net cash provided by financing activities	<u>306,677</u>	<u>69,100</u>	<u>450,604</u>
Net increase in cash and cash equivalents	(16,032)	760	763
Cash and cash equivalents at beginning of period	<u>25,345</u>	<u>121</u>	<u>118</u>
Cash and cash equivalents at end of period	<u>\$ 9,313</u>	<u>\$ 881</u>	<u>\$ 881</u>

(Continued on following page)

See accompanying notes

# ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES

(A Development Stage Entity)

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended March 31, 2004 and 2005  
and from inception (August 1, 2003 to March 31, 2005)

(Unaudited)

(Continued from previous page)

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Supplemental disclosure of cash flow information:	<u>2004</u>	<u>2005</u>	<u>Inception to March 31, 2005</u>
Interest paid during the period	\$ -	\$ -	\$ -
Income taxes paid during the period	\$ -	\$ -	\$ -

Supplemental disclosure of non-cash investing and financing activities:

During the quarter ended March 31, 2004, 4,050 shares of Series 2 preferred stock were used to exercise common stock options for the purchase of 4,050,000 common shares and 16,001 shares of Series 1 preferred stock were used to exercise common stock options for the purchase of 8,000,700 common shares. In addition wages to officers and directors and fees to consultants of \$496,562 were paid by the issuance of common stock and the value assigned to stock options issued was \$22,248.

During the quarter ended March 31, 2004, 25,000,000 shares were issued to a director as payment of accrued wages for \$232,250, repurchase of a future interest in stock distributions for \$75,000, and payment for services for \$172,750.

During the quarter ended March 31, 2005 wages to officers and directors and fees to consultants of \$81,592 were paid by the issuance of common stock.

See accompanying notes

**ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Entity)**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2005

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, 2004 and March 31, 2005, and the results of operations and cash flows for the periods ended March 31, 2004 and 2005. The Company is currently considered to be in the development stage as more fully defined in Financial Accounting Standards Board Statement No. 7. The Company has not generated any revenues from its activities in the oil and gas business.

The Company formed Global Direct Marketing Services in October 1998 as an operating subsidiary for its then ongoing operations as a direct mail cooperative coupon advertising business. Certain assets and liabilities of Arête were contributed to Global. The consolidated financial statements of the Company include the accounts of Arête for the entire period, the accounts of Global since inception, and Aggression Sports, Inc., a majority owned subsidiary, now inactive, since October 1, 2001. All intercompany accounts have been eliminated in the consolidation. All operations prior to August 1, 2003 have been reclassified as discontinued.

Since August 1, 2003, the Company's financial statements have been prepared on the basis of the Company being a development stage entity, having discontinued several unsuccessful ventures including cessation of operations of its subsidiary, Aggression Sports, Inc., having discontinued operations as a business development company focused on developing certain bond and other funding vehicles for growth stage companies, and having embarked on an entirely new business of developing opportunities in the traditional and alternative and renewable energy sectors, and which contemplates the formation of capital and management resources to pursue development of new business opportunities. The recast of the Company as development stage is intended to more correctly and accurately reflect the current status of the Company and to properly record results of operations and changes in financial condition as it pursues its new business plan. As shown in the accompanying financial statements, the Company has recast its financial statements to reflect this divergence from its past business endeavors including losses from write down of assets and valuation of assets held for disposal from discontinued operations. (See: Note 4 – Discontinued Operations)

The Company has incurred significant losses and at March 31, 2005, the Company has a working capital deficit of \$ 956,042 and a stockholders' deficit of \$ 952,665. In addition, the Company is delinquent on payment of payroll taxes and creditor liabilities. As a result, substantial doubt exists about the Company's ability to continue to fund future operations using its existing resources.

As a development stage company, the Company continues to rely on infusions of debt and equity capital to fund operations. The Company relies principally on cash infusions from its directors and affiliates, deferred compensation and expenses from the executive officers, and paid a significant amount of personal services, salaries and incentives in the form of common stock and common stock options.

**ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Entity)**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2005

2. Delinquent amounts payable

As of March 31, 2005, the Company is delinquent on payments of various amounts to creditors including payroll taxes. 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.

3. Income taxes

The book to tax temporary differences resulting in deferred tax assets and liabilities are primarily net operating loss carryforwards of \$ 5,767,000 which expire in years through 2024.

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.

4. Discontinued Operations

The Company's decision to pursue projects and investments in traditional oil and gas as well as the 'New' alternative and renewable Energy business is an entirely new business direction that required that it take the decisive step to formally discontinue its former operations beginning August 1, 2003. This decision is reflected by a change in the presentation of the Company's financial statements to segregate discontinued operating results in previous periods from continuing operations going forward.

There is no effect in the current three month period of this reclassification. During March 2000, the Company abandoned the direct mail and coupon business. At March 31, 2005, the remaining liabilities of this division were \$58,230 in unpaid payroll taxes. As of the year ended December 31, 2004, and the quarter ended March 31, 2005, \$54,054 and \$ 0 respectively, of debt were reclassified as extinguished.

During 2003, the Company abandoned the development of Aggression Sports Inc., a subsidiary. At March 31, 2005, the remaining liabilities of this division were \$91,077 in trade payables and \$79,351 in unpaid payroll taxes. During the current quarter, the company resolved to dissolve its two subsidiaries and has initiated procedures to close out all inter-company accounts and consolidating accounts related to these subsidiaries.

5. Stock transactions

During the quarter ended March 31, 2005, the Company issued a total of 16,724,864 common shares for compensation of officers, directors and consultants, valued at an aggregate of \$81,592, and issued 1,970,000 shares on exercise of compensatory stock options and compensatory stock purchase rights for proceeds to the Company of \$11,350. Also, the Company made new grants of stock options of 2,500,000 common shares to the directors exercisable at \$0.008 per share for up to \$20,000.

**ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Entity)**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2005

5. Stock transactions (continued)

On March, 16, 2005, the Company and the CEO agreed to settle all consulting services accrued through March 30, 2005 with a Convertible Promissory Note for \$60,000 with 8% interest from March 30, 2005 due on demand after July 1, 2005. The Promissory Note converts into 10,000,000 registered common shares at \$0.006 per common share. In addition, in consideration for the payment of 10,000,000 registered common shares valued at \$48,000, representing compensation through June 30, 2005, the CEO agreed to terminate his consulting agreement and negotiate quarterly compensation with the compensation committee of the board each quarter commencing July 1, 2005.

Also, during the first quarter of 2005, 1,000,000 stock options granted to the CEO in prior periods expired, and 2,000,000 stock options granted to a consultant also expired.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*. Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation costs for the Company's stock option plans been determined based on the fair value at the grant date for awards during the quarter ended March 31, 2005 in accordance with the provisions of SFAS No. 123, the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below:

	<u>2004</u>	<u>2005</u>
Net loss - as reported	\$ (505,216)	\$ (110,720)
Net loss - pro forma	(505,216)	(121,250)
Loss per share - as reported	*	*
Loss per share - pro forma	*	*

\* - Less than \$0.01 per share

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2004 and 2005, dividend yield of 0%; expected volatility of 100%, risk-free interest rate of 1.45% to 1.75%; and expected life of .5 to 2 years.

**ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES**  
**(A Development Stage Entity)**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2005

6. Subsequent Events

Following the first quarter ended March 31, 2005, the Company issued total compensation to certain directors and consultants of 13,943,571 registered common shares valued at \$55,390, and received an aggregate of \$34,577 on exercise of common stock options and special stock purchase rights for a total of 8,294,235 registered common shares. Additionally, the company granted compensation stock options to directors and officers of 7,500,000, expiring 2 years from the date of grant, exercisable at \$0.004 per share for an aggregate of \$30,000, of which 7,000,000 were exercised in the same period, and 3,000,000 stock options to three directors, expiring 1 year from the date of grant exercisable at \$0.0035 per share for an aggregate of \$10,500.

During the fourth quarter of fiscal year ended December 31, 2004, the Company formed a new subsidiary to pursue acquisitions of producing oil and gas properties that were presented by one of the Company's directors. In the first quarter of 2005, the Company began pursuing acquisition of a specific property for this subsidiary and authorized three of its directors to become officers and directors of the new subsidiary company to begin due diligence and negotiations for acquisition of this prospect. Should this prospect prove viable after full investigation, it is the Company's intent to complete capitalization of the subsidiary and upon completion of an acquisition, of which there is no assurance, the Company intends to dividend a portion of its equity ownership in the subsidiary to the Company's shareholders.

In April, 2005, the Company granted two directors stock compensation in the amount of 2,500,000 common shares each as well as stock options to purchase 2,500,000 shares of common stock for \$0.004 per share for their services in bringing this prospect into the Company and completing the deal. On May 4, 2005, the Company's subsidiary, issued a total of 700,000 shares of its common stock as founders shares of which 550,000 shares were issued to the Company, or 78.6% and 150,000 common shares, or 21.4% of the total amount issued, were issued in equal portions to each of the subsidiary's three directors (who are also directors of the Company.)

As of the date of this report, the Company's subsidiary has not signed a definitive purchase agreement nor has obtained any firm commitment for debt or equity financing to pay the purchase price, although management believes that execution of a definitive purchase agreement is immanent. Even if a definitive purchase agreement is signed, the subsidiary must successfully raise an amount of debt and equity capital to acquire the prospect, which is subject to a rigorous time line, and there remain other components of the deal to be completed prior to the anticipated closing date, therefore there can be no assurances that this deal will be completed within the anticipated time line of on or about June 1, 2005, during any extension thereof or, if at all.

## Item 2-Management's Discussion and Analysis/Plan of Operation

### **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 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 and preferred stock, and 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 Company's common stock options issued to consultants are recorded at the fair value of the Company's options computed using the Black-Scholes Model.

### **Plan of Operation.**

In the third quarter of 2003 we discontinued our previous business development activities to focus on traditional and alternative energy. As a result, we entered the development stage. This required us to recast our former operations as discontinued, write down certain fixed assets and inventory from discontinued operations, and, as well, recast operating results into discontinued operations and continuing operations, respectively, beginning August 1, 2003 and continuing through the current period. As a result, operating results, including losses, expenses and revenues attributed to discontinued operations are stated separately from these same items from continuing operations. Therefore, since the current and past business operations relate to entirely different businesses, the financial statements now provide two separate comparisons of the current and comparable prior period for continuing operations, and the same for discontinued operations. (See: Note 4 – Financial Statements).

During the Third Quarter of 2003, we began to pursue acquiring direct participations in traditional oil and gas projects as well as sponsoring and financing alternative and

renewable energy projects. This included pursuing lower-risk projects involving overlooked and by-passed reserves of domestic oil and gas, and seeking funding through professional equity funds looking specifically for such opportunities. Since inception of our new development stage, we have reviewed numerous prospects and pursued funding and acquisition efforts for two specific deals through an oil and gas investment banking consultant which we contracted in June of 2004. Ultimately, the first deal was terminated without cause by the seller of that project in April of 2004, and after significant evaluation and due diligence on our part, the second group of prospects initiated in May of 2004 did not qualify for financing, and in the first quarter of 2005, we terminated our negotiations with the seller group for this prospect. In the current period, we decided to pursue a much smaller and ostensibly easier prospect to acquire and fund which included a number of producing shallow wells in Colorado with several potential re-entry and in-field development wells for total cost of under \$3 Million. That deal is currently being pursued through a new subsidiary of the Company that will be operated by three of our outside directors. We believe that this prospect can be purchased partially with debt against its existing production, and with one or more tranches of equity funding for the balance of the purchase price and drilling and completion costs for the new and re-entry wells. If successful, this prospect will cover operating costs of a small operation and possibly additional investment capital for new prospects. Additionally, the CEO intends to continue to seek out oil and gas re-work and re-entry prospects through a second subsidiary company, looking to acquire funding through our investment banking consultant's contacts and/or private investors through a private placement through a joint venture or limited liability entity.

We have encountered numerous challenges to date ranging from competition for prospects from parties with better staffing, track records and financing to the extraordinary costs and time involved in developing and validating data about prospective acquisition targets. The costs and time involved in pursuing this business plan are substantial and are compounded by our lack of qualified personnel, and the expense involved in maintaining the Company's compliance responsibilities under the federal securities laws. We have decided to address these challenges by pursuing different acquisition and financing strategies through separate corporate subsidiaries in order to attract different oil and gas prospects and funding sources. Therefore, until the Company has achieved capital and revenue sufficient to purchase or option these prospects, it cannot be assumed that if the Company locates a viable candidate for acquisition, that it will be able to raise capital to make the acquisition, or for that matter will be able to control the prospect for sufficient time to complete the financing application process.

Due to the fact that the Company presently relies exclusively upon contributions of time and operating cash from its directors and officers to pursue its business plan, this has been increasingly taxing on these individuals, and has resulted in substantial dilution to the Company's shareholders. It has become the chief priority of management to achieve cash flow sufficient to cover our overhead as soon as possible, which is largely the motivation to pursue a much smaller initial project, through this new subsidiary, as described above. If we are successful in the first and subsequent acquisitions through this or any further subsidiary we form to acquire deals made through the efforts of our CEO, directors or others, we intend to give our shareholders a direct interest in these ventures through a registered dividend spin-off transaction designed to allow these subsidiaries to pursue different ventures independently of the company.

We continue our efforts to compromise or resolve outstanding obligations including accrued employee compensation, withholding and other taxes, operating and trade payables of the Company and its former subsidiary operations.

While we are very optimistic about our progress in developing these projects and confident in our overall approach to entering the oil and gas business, no assurances can be made that the current projects will result in any significant revenue for operations in the immediate future.

### **Financial Condition**

In prior periods, we wrote off Aggression Sports, Inc.'s fixed assets and inventory and molds held for disposal from discontinued. Additionally, we continue to reduce certain amounts payable from discontinued operations as extinguishment of debt, through the passage of statutes of limitation. We expect future write-downs and reclassifications from discontinued operations and extinguishment of debt to be nominal and incremental in nature.

As of the end of the quarter ended March 31, 2005, the Company had \$55,258 in total assets. This compares to total assets of \$7,090 as of the fiscal year ended December 31, 2004. Total liabilities were \$1,007,923 as of March 31, 2005 compared to \$941,977 as of the fiscal year ended December 31, 2004. Accounts payable and accrued expenses at March 31, 2005 were \$928,086 as compared to \$919,890 at December 31, 2004. During the quarter ended March 31, 2005, total liabilities were increased by \$65,946. Operating losses from continuing operations were \$110,720, contributing to the accumulated deficit as of March 31, 2005 of \$12,634,285, as compared to an accumulated deficit as of December 31, 2004 of \$12,523,565. (See: Note 1 to Financial Statements.)

The Company's subsidiary, Global Direct Marketing Services, Inc., which is now inactive, has left an obligation of \$58,230 in unpaid payroll taxes. During 2003, the Company abandoned the development of the Aggression Sports, Inc. subsidiary. At March 31, 2005, the remaining liabilities of this subsidiary were \$91,077 in trade payables and \$79,351 in unpaid payroll taxes. As of March 31, 2005, the consolidated entity owes \$289,363 in unpaid payroll taxes of which \$151,782 applies specifically to the parent company for periods through the fourth quarter of 2001. (See: Notes 1 and 2 to Financial Statements.)

During the quarter ended March 31, 2005, the Company continued to rely upon infusions of cash from exercise of stock options by officers, directors and consultants, and upon payment of compensation to officers, directors and consultants in the form of common stock and common stock options. During the quarter ended March 31, 2005, the Company paid \$70,100 in compensation to officers and directors, paid \$10,492 to consultants and professionals with 16,724,864 shares of common stock.

As of March 31, 2005, executive salaries and bonuses of \$286,624 were accrued and unpaid, and the Company had \$218,820 in notes receivable for stock sales from former management members together with a note receivable for exercise of a stock option of \$4,000 from a third party for a total of \$222,820.

## **Results of operations**

As stated above, the Company discontinued former operations and set about pursuing a new business plan in the energy industry as a development stage entity and reported results of continuing operations and of discontinued operations separately for the current period and the comparable period of fiscal 2004.

The Company had no revenues from operations during the quarter ended March 31, 2005, and no revenues during the comparable period ended March 31, 2004. Net loss from continuing operations for the quarter ended March 31, 2005 was \$110,720 as compared to a net loss from continuing operations of \$536,383 for the quarter ended March 31, 2004. The net loss during the quarter ended March 31, 2004 was offset by \$31,167 in extinguishment of debt resulting in an aggregate loss of \$505,216. The net loss for the quarter ended March 31, 2005 was \$110,720 as compared to a net loss for the comparable period in fiscal year 2004 of \$505,216.

The Company occupies an executive suite on a month to month basis for monthly rent of \$1,000 per month. The Company rents space for file storage, furniture and excess equipment as well as its Arête Outdoors inventory for \$125 per month.

As stated above, we will continue to operate the Company on an austere program of minimum overhead, while utilizing skills of its board members, independent contractors as administrative staff and individual independent contractors with expertise in business development, capital acquisition, corporate visibility, oil and gas development, geology and operations with the use of our common stock and common stock options as incentives during the development stage of our new business model. Further as opportunities for participation in profitable revenue producing projects come forward, we intend that consultants and advisors will be offered compensation from revenues or interests, direct participations, royalties or other incentives from the specific projects to which they contribute. While reducing the amount of variable costs, there is almost no way to reduce or offset our fixed expenses related to office expense, legal, accounting, transfer agent fees, Securities Act reporting, corporate governance, and shareholder communications. 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 activities.

## **Liquidity and Capital Resources**

The Company had a working capital deficit as of March 31, 2005 of \$956,042. This compares to a working capital deficit of \$938,856 as of December 31, 2004. During the quarter ended March 31, 2005 an aggregate of 18,594,864 shares of common stock were issued for aggregate consideration of \$92,942 (for an average of \$0.005 per share).

The Company had a stockholder's deficit at March 31, 2005 of \$952,665. This is compared to stockholder's deficit at December 31, 2004 of \$934,887. The stockholder's deficit increased due the Company's operating loss offset by the payment of services with the issuance of stock and the exercise of stock options for cash.

At March 31, 2005, the Company had no material commitments for capital expenditures.

Due to its ongoing 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.

Management believes that the Company will experience significant difficulty internally raising significant additional equity capital or debt until these matters have been resolved and the Company has eliminated a substantial amount of its outstanding debt and/or achieves operating revenue from its proposed oil and gas operations. The Company looks to earn management fees through its newly formed subsidiary and revenue from proposed oil and gas development activities that it can earn-in on successful financing and commencement of operations, of which there is no assurance.

Unless and until it achieves success in its proposed activities, of which there is no assurance, 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 or revenue from proposed operations will most likely impair the ability of the Company to meet its obligations in the near-term.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

During the Quarter ended March 31, 2005, there were no material pending legal proceedings initiated by or against the Company or any of its officers, directors or subsidiaries.

### Item 2. Changes in Securities

None

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Submission of Matters to a Vote of Securities Holders

None.

### Item 5. Other Information.

None.

### Item 6. Exhibits and Reports on Form 8-K

Exhibit 31.1 Certification of CEO and CFO Pursuant to 18 U.S.C, Section 7241, as adopted and Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification of CEO and CFO Pursuant to 18 U.S.C, Section 1350, as adopted and Section 906 of the Sarbanes-Oxley Act of 2002.

## 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 16, 2005

By: /s/ Thomas P. Raabe, CEO/ Interim CFO  
Thomas P. Raabe, Principal Executive Officer  
Interim Principal Financial and Accounting Officer

Exhibit 31.1

Form 10-QSB  
Arête Industries, Inc.  
Quarter ended March 31, 2005

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
AND PRINCIPAL ACCOUNTING OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas P. Raabe, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Arête Industries, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including any consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

Exhibit 31.1

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Dated: May 16, 2005      By: /s/ Thomas P. Raabe

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Thomas P. Raabe, Chief Executive Officer  
Officer and Interim Chief Financial Officer  
Of the Registrant

**EXHIBIT 32.1**

Exhibit 32.1

Form 10-QSB  
Arête Industries, Inc.  
Quarter ended March 31, 2005

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Arête Industries, Inc. (the "Company") on Form 10-QSB for the period ending March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas P. Raabe, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: May 16, 2005

By: /s/ Thomas P. Raabe

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Thomas P. Raabe, Chief Executive Officer  
and Interim Chief Financial Officer of  
the Registrant