

**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: September 30, 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 November 1, 2001, Registrant had 486,825,562 shares of common stock, No par value, outstanding.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY

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ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
September 30, 2001 and December 31, 2000
(Unaudited)

	<u>2001</u>	<u>2000</u>
Current assets:		
Cash and cash equivalents	\$ 1,464	\$ 13,376
Certificate of deposit	-	52,387
Prepaid expenses	<u>19,651</u>	<u>26,031</u>
Total current assets	21,115	91,794
Furniture and equipment, at cost net of accumulated depreciation of \$11,014 (2001) and \$5,478 (2000)	9,287	18,995
Security deposit	5,409	5,954
Investment in and advances to Applied Behavior Systems, LLC (Note 2)	-	-
Investment in and advances to Aggression Sports (Note 2)	<u>100,395</u>	<u>89,222</u>
	<u>\$ 136,206</u>	<u>\$ 205,965</u>

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:		
Accounts payable (Note 3)	\$ 319,261	\$ 201,979
Accrued expenses	786,983	508,462
Accrued payroll taxes (Note 3)	198,445	191,755
Settlement due	15,650	-
Notes payable (Note 4)	100,000	50,000
Notes payable - related parties (Note 4)	<u>175,767</u>	<u>201,561</u>
Total current liabilities	1,596,106	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, no shares issued and outstanding	-	-
Common stock, no par value; 499,900,000 shares authorized, 476,825,562 (2001) and 372,422,912 (2000) shares issued and outstanding	9,068,130	8,515,871
Accumulated deficit	(10,310,415)	(9,346,413)
Notes receivable from sale of stock	<u>(217,615)</u>	<u>(117,250)</u>
Total stockholders' deficit	<u>(1,459,900)</u>	<u>(947,792)</u>
	<u>\$ 136,206</u>	<u>\$ 205,965</u>

See accompanying notes.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS
For the three months ended September 30, 2001 and 2000
(Unaudited)

	<u>2001</u>	<u>2000</u>
Revenues:		
Management fees - Aggression Sports (Note 2)	\$ -	\$ 108,000
Other income	<u>-</u>	<u>-</u>
Total revenues	-	108,000
Operating expenses:		
Depreciation	1,696	1,972
Research and development (Note 2)	-	-
Rent	15,285	19,947
Salaries	-	162,023
Other operating expenses	<u>102,428</u>	<u>162,201</u>
Total costs and expenses	<u>119,409</u>	<u>346,143</u>
Total operating income (loss)	(119,409)	(238,143)
Other income (expense):		
Equity in loss of Aggression Sports (Note 2)	(4,562)	(49,228)
Impairment of investment in Aggression Sports (Note 2)	-	-
Interest expense	(5,104)	(1,034)
Interest and miscellaneous income	<u>3,017</u>	<u>1,760</u>
Total other income (expense)	<u>(6,649)</u>	<u>(48,502)</u>
Net loss from continuing operations	(126,058)	(286,645)
Net loss from discontinued operations (Note 1)	<u>-</u>	<u>-</u>
Net loss applicable to common shareholders	<u>\$ (126,058)</u>	<u>\$ (286,645)</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>476,938,000</u>	<u>332,752,000</u>

* - Less than \$.01 per share

See accompanying notes.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS
For the nine months ended September 30, 2001
(Unaudited)

	2001	2000
Revenues:		
Management fees - Aggression Sports (Note 2)	\$ 33,400	\$ 138,000
Other income	<u>48,564</u>	<u>-</u>
Total revenues	81,964	138,000
Operating expenses:		
Depreciation	5,536	2,821
Research and development (Note 2)	121,936	26,878
Rent	55,936	274,254
Salaries	-	175,000
Other operating expenses	<u>621,829</u>	<u>148,904</u>
Total costs and expenses	<u>805,237</u>	<u>627,857</u>
Total operating income (loss)	(723,273)	(489,857)
Other income (expense):		
Equity in loss of Aggression Sports (Note 2)	(48,575)	(126,233)
Impairment of investment in Aggression Sports (Note 2)	(141,711)	10,000
Interest expense	(62,002)	(9,638)
Interest and miscellaneous income	<u>11,559</u>	<u>2,186</u>
Total other income (expense)	(240,729)	(123,685)
Net loss from continuing operations	(964,002)	(613,542)
Net loss from discontinued operations (Note 1)	<u>-</u>	<u>(70,520)</u>
Net loss applicable to common shareholders	<u>\$ (964,002)</u>	<u>\$ (684,062)</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>464,790,000</u>	<u>323,610,000</u>

* - Less than \$.01 per share

See accompanying notes.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
For the nine months ended September 30, 2001 and 2000
(Unaudited)

	<u>Common stock</u>		Accumulated deficit
	Shares	Amount	
Balance, December 31, 2000	372,422,912	\$ 8,515,871	\$ (9,346,413)
Issuance of common stock for services (Note 4)	31,253,283	126,507	-
Issuance of common stock upon conversion of note payable - related party (Note 4)	46,649,367	178,912	-
Issuance of common stock in payment of interest on notes payable (Note 4)	8,000,000	44,350	
Common stock issued upon exercise of options (Note 4)	11,500,000	88,000	-
Interest in sale of Arête common stock by equity-method investee (Note 2)	2,000,000	34,490	-
Common stock issued upon exercise of options paid for by a note receivable (Note 4)	5,000,000	80,000	
Net loss for the nine months ended September 30, 2001	-	-	(964,002)
Balance, September 30, 2001	<u>476,825,562</u>	<u>\$ 9,068,130</u>	<u>\$ (10,310,415)</u>

See accompanying notes.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine months ended September 30, 2001 and 2000
(Unaudited)

	2001	2000
Cash flows from operating activities:		
Net loss	\$ (964,002)	\$ (684,062)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,536	2,937
Equity in loss of Aggression Sports	48,575	126,233
Impairment of investment in Aggression Sports	141,711	-
Stock issued for services and interest on notes	175,857	225,863
Changes in assets and liabilities:		
Accounts receivable	-	(69,675)
Prepaid expenses	6,023	(1,193)
Accounts payable	117,282	5,326
Accrued expenses	<u>301,443</u>	<u>150,599</u>
Total adjustments	<u>796,427</u>	<u>440,090</u>
Net cash used in operating activities	(167,575)	(243,972)
Cash flows from investing activities:		
Purchase of property and equipment	-	(3,932)
Security deposit	545	(5,664)
Investments in and advances to Aggression Sports	(171,969)	106,334
Maturity (purchase) of certificate of deposit	<u>52,387</u>	<u>(25,919)</u>
Net cash provided by (used in) investing activities	(119,037)	70,819
Cash flows from financing activities:		
Proceeds from issuance of common stock	-	67,152
Proceeds from exercise of stock options	88,000	68,500
Proceeds from note payable - related parties	136,700	-
Proceeds from note payable	50,000	26,500
Payments on long term debt	<u>-</u>	<u>-</u>
Net cash provided by financing activities	<u>274,700</u>	<u>162,152</u>
Net increase in cash and cash equivalents	(11,912)	(11,001)
Cash and cash equivalents at beginning of period	<u>13,376</u>	<u>15,844</u>
Cash and cash equivalents at end of period	<u>\$ 1,464</u>	<u>\$ 4,843</u>

(Continued on following page)
See accompanying notes.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine months ended September 30, 2001 and 2000
(Unaudited)

(Continued from preceding page)

Supplemental disclosure of cash flow information:	2001	2000
Interest paid during the period	\$ <u> -</u>	\$ <u> 9,638</u>
Income taxes paid during the period	\$ <u> -</u>	\$ <u> -</u>

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 nine months ended September 30, 2001, notes payable from two related parties with outstanding balances of \$178,912 were converted into common stock.

See accompanying notes.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 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 September 30, 2001, and the results of operations and cash flows for the periods ended September 30, 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 September 30, 2001, the Company has a working capital deficit of \$1,589,341 and a stockholders' deficit of \$1,474,250. 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 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. Arête's 31% interest in the proceeds of \$34,490 has been recorded as additional paid-in capital.

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 CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2001

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 was entitled to fees for management services and was to receive an equity interest in this new application development company. Through September 30, 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 \$80,000 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 September 30, 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 nine months ended September 30, 2001, (1) two officers of the Company converted \$178,912 of notes payable into 46,649,367 shares of the Company's common stock, (2) the Company issued 31,253,283 shares of common stock for services valued at \$126,507, (3) the Company issued 2,000,000 shares of common stock in exchange for a \$30,000 of accrued interest on a note payable (4) the Company issued 11,500,000 shares of common stock upon the exercise of stock options and (5) the Company issued 8,000,000 shares of common stock as part of the settlement price for an additional 30% investment in Aggression Sports. The Company also issued 10,000,000 shares 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. As of September 30, 2001, the 10,000,000 shares of common stock as collateral for the payment of two notes payable may be kept by the note holders upon conversion of the notes into stock at the note holders' option.

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.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001

4. Stockholders' equity (continued)

As of September 30, 2001, the Company has granted options and convertible instruments which if exercised into common stock, would exceed the authorized shares of stock of the Company. The excess options and convertible instruments are held by two officers/directors of 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 \$3,790,000 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 reasonable 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 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.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001

6. Commitments and contingencies (continued)

Following the end of the current quarter, 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.

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.

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. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially and adversely from those set forth in the forward-looking statements, including, without limitation: Company has been unprofitable since inception to the end of the 3rd Quarter, 2001. This may affect the stock price and public float and further reducing liquidity. 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 statements.

Following the end of the current period, as a result of a settlement of an enforcement action brought by the Securities and Exchange Commission (SEC) against the Company, the Company consented to the entry by the SEC of a Cease and Desist Order, without admitting or denying the allegations and findings of the SEC, which ordered them to cease and desist from further violation of certain anti-fraud provisions of the federal securities laws including Section 10b and Rule 10b-5 of the Securities Act of 1933. As a result of such Cease and Desist Order, the Company is unable to rely upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 without the SEC's permission. None-the-less, the Company is making the above statement concerning forward-looking statements as advisory to the reader hereof.

General Summary

As previously reported, during the second quarter, the Company determined to terminate supporting operations of its new venture management projects, the Arete Outdoors outdoors sports products venture; the Applied Behavior Systems' SpeechTeach project ("ABS") and the development of artificial intelligence applications through Seventh Generation Technologies, Inc. ("7GT"). During the current quarter, the Company continued to take measures to reduce its overhead to a minimum, to protect and preserve the assets and opportunities that it had developed through these ventures, and to put the Company in a position to pursue new ventures under its new vision to develop more promising business opportunities with immediate revenue potential. As the Company's first project in this direction, we planned to organize a commercial construction finance and bonding brokerage service through a new company to be formed in partnership with Gerald J. Brandimarte, entitled Eagle Capital Funding Corporation ("Eagle Capital"), in which Mr. Brandimarte was to be the principal employee. Operations of Eagle Capital were to commence upon funding of certain projects to be contributed to Eagle Capital by Mr. Brandimarte. As of the end of the current quarter, these projects had not been funded and the events of September 11, 2001 acted to put the likelihood of success of this venture into considerable doubt. In addition to the construction funding aspect of the Eagle Capital business plan, the Company sought Mr. Brandimarte's help in bringing in additional working capital into the Company and into its subsidiary, Arete Outdoors. On August 30, 2001 a preliminary operating arrangement was initiated and Mr. Brandimarte became a member of the Company's board of directors. Subsequent to the end of the current quarter, Mr. Brandimarte accepted an offer of employment at a major Wall Street investment-banking firm on an exclusive and captive basis, and was required to resign as an employee of Eagle Capital and as a director of the Company. The Company has redoubled its efforts to find a financial partner to assist in funding the Company to restart operations under a revised plan, and hopes to use Eagle Capital as a financing vehicle to attract new investors and business opportunities, although no specific candidates have been identified at the date of this report.

As indicated above, 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 Arete Outdoors and ABS/7GT into separate, independent companies with their own management teams and investors, and the shareholders of the Company will continue to participate through the spin-offs.

To put this plan in motion, the Company is developing a plan to transfer a majority of its ownership of these assets to the Company's shareholders. The Company's CEO will undertake responsibility to build a new management team and seek new investors and business opportunities for Arete Outdoors. The Company's CFO will undertake responsibility to solidify the various technological elements of the software development project, develop business opportunities and seek third party financing through a new company he has formed for such purposes as well as entirely new ventures, entitled New Public Capital ("NPC"). The Company already owns a significant equity interest in Arete Outdoors and is considering a transfer of the ABS and 7GT business opportunities to NPC in exchange for an equity interest. The Company intends to distribute through a registered stock dividend, its equity position in these two ventures to its shareholders.

A major challenge facing the Company in accomplishing either goal of distributing its ownership of the current ventures to its shareholders and the current plan of attracting new businesses and investors for future projects is in resolving its liabilities and acquiring immediate operating capital to effect these transactions. Management views the Company's ability of raising either short term debt or equity funding as highly problematic, as either avenue is viewed as extremely difficult in the current business environment. This is further 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 either from insiders or new investors to pay its ongoing operating expenses and to defer the costs of holding its annual shareholders meeting as soon as possible, neither of which can be assured at this time. Management, consisting of its CEO and CFO, and former members of the new venture management team, have deferred their salary and have agreed to continue to do so for the foreseeable future.

Description of Businesses:

Outdoors Equipment: Aggression Sports, Inc. dba Arete Outdoors.

Arete Outdoors has two principal products that it developed and introduced into the outdoor retailer market in the Winter of 2001. The products received excellent reviews from the field and feedback from the marketplace was positive and encouraging. While they are viable products in their own right, they will not generate sufficient sales to create a sustainable business until significant additional investment can be made in product evolution, marketing, sales and customer service infrastructure. Arete Outdoors intends to pursue a plan to acquire promising young companies in a number of growing segments in the outdoor sports industry. In order to execute this plan, Arete Outdoors must be made attractive to experienced entrepreneurs and investors who are knowledgeable of,

and sympathetic to, the outdoor industry. Lack of sales revenues and the current adverse economic conditions are creating a significant challenge to successfully executing this plan. The Company intends to assist Arete Outdoors in overcoming this adversity in raising acquisition and operating capital and in becoming attractive to prospective acquisition candidates and investors by effecting a registered stock dividend and/or rights offering of Arete Outdoors' stock to the Company's shareholders.

This new vision includes taking advantage of opportunities that focus on alternative distribution channels including direct marketing, e-business, catalogue sales and hand picked wholesale distribution, which is a departure from the industry norm of relying on expensive and unpredictable wholesale distribution networks. Arete Outdoors looks to focus on businesses with existing revenue at or near profitability in low overhead, multi-season high-margin products that are manufactured by third parties or outsourced to low cost independent facilities. If the company is successful in making such acquisitions, it will look to consolidate resources to share among the various entities to take advantage of cost savings and economies of scale. Specifically, we anticipate that the particular resources that can be shared among diverse businesses are financial and accounting controls and systems, marketing, sales and distribution infrastructure, especially in the area of direct marketing including, for example, graphic design and production of catalogues, management and cooperation of customer databases, permission-based e-marketing, BtoB and BtoC transaction execution and fulfillment. In turn, we will try to find manufacturers with interests and resources to put into proper marketing of the SnowFangs snowshoe and the Rush Downhill products, as a licensing or joint venture project.

Management has determined to cease all operating expenses in an effort to preserve Outdoors' assets pending development of outside investment and e-commerce operations. Toward that end all expenses, including employee compensation, have ceased. To date the Company has invested approximately \$782,000 in Outdoors, which has generated approximately \$22,000 in revenues.

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.

Artificial Intelligence Applications: ABS and 7GT Opportunities.

During the latter half of 2000 through May of this year, we worked with our new venture management client, Applied Behavior Systems, LLC, ("ABS") and Behavior Systems, LLC, ("BS") to package and pursue funding for the commercialization of the SpeechTeach language-learning program. The formation in late 2000 of 7GT was intended as a vehicle to extend the scope of the initiative into voice driven e-mail and human machine interface for robotics applications. In connection with these efforts, we contributed senior management services and funded marketing and research and development operations while seeking venture partners and venture capital sources to expand these programs toward commercialization. Due to a variety of causes, no outside capital was obtained, forcing Management to stop incurring further expenses in May,

2001. There are currently no employee or other expenses being incurred in connection with these programs. To date Company has expended approximately \$485,000 in the ABS/BS software development program, which has yet to generate any revenues.

During the current period, both ABS and 7GT became inactive and the designer of the intelligent agent software engine, Mr. William Hutchison, filed personal bankruptcy under Chapter 7 of the bankruptcy code. Notwithstanding this, he and his associates continued independently to develop the SpeechTeach software to a point where it could be released in limited form in the near-term. To the Company's knowledge, this has not been completed as of the time of filing this report. The Company, through the efforts of its CFO continued to seek funding and business opportunities for the overall technology. Due to Mr. Hutchison's bankruptcy, his ownership of the SpeechTeach technology as well as that of the technology being applied in the extended 7GT project, came into doubt. The bankruptcy also put collection of the Company's \$485,000 receivable from ABS into jeopardy. Due to these challenges, the Company has been prevented from successfully completing negotiations to consolidate and reconfirm the Company's interest in these business opportunities with no further financial commitment on the part of the Company and to thereby maximize their current value to the shareholders, while allowing the opportunities to be developed by new investors and venture partners.

The Company and Mr. Gorman intend to cooperate in distributing the Company's equity ownership in NPC to the Company's shareholders through a registered stock dividend in the near future. Holders of the Company's common stock on the record date of such proposed dividend will receive a pro-rata portion of the Company's referenced equity interest after the Securities and Exchange Commission approves the filing. The Company's interest will most likely be subject to a percentage dilution when NPC sells additional securities to fund its initial activities. Mr. Gorman and NPC intend to pursue funding and business development of this and other business opportunities as an independent publicly held company following execution of the stock dividend.

Employees:

Arete Industries, Inc. has three full time employees, and its subsidiary, Aggression Sports, Inc. presently has no employees other than its acting president, the Company's current CEO. Seventh Generation Technologies, Inc. presently has no operations and has no employees. Messrs. Raabe and Gorman remain on a deferred salary basis as the Company's principal officers and directors.

Financial Condition

The Company had a working capital deficit as of September 30, 2001, of \$1,574,991. This compares to a working capital deficit of \$1,061,963 at December 31, 2000. Losses were partially funded through increased accounts payable, by accruing or deferring salaries and shares issued for services. During the 3-month period ended September 30, 2001, the Company issued 17,662,260 shares of common stock for services.

Results of Operations

The company's operations during the third quarter have been confined to business development activities of its two principal officers 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 September 30, 2001, the Company incurred \$119,409 in operating expenses. We anticipate reducing operating costs even further and are hoping to eliminate rent expenses from our current office lease which continues for another 17 months, either by subletting the space or obtaining a release from our landlord. 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.

Liquidity and Capital Resources

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. We are refocusing our efforts on developing business opportunities through merger or acquisition of businesses with established revenue, markets and products and which have a high growth potential with only a nominal infusion of additional capital. We believe those opportunities will become available due to the lack of opportunities in the current financial environment for young businesses to raise capital in traditional forms such as initial public offerings, venture capital investments and angel investments. Our previous activities involved employing highly skilled senior management personnel and administrative staff, which required significant cash resources that we were unable to replenish by raising additional equity capital. When the former business development projects failed to yield any appreciable revenues, they had to be terminated. 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 plan described above on a salary deferred basis.

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.

In order to raise additional capital and free up resources to focus on activities more appropriately suited to the current economy, the Company seeks to spin-off its current business development projects to an independent management team that can attract private investors and acquisition opportunities by becoming themselves, publicly traded companies. It is anticipated that this will benefit the Company and its shareholders by limiting or eliminating future investment by the Company, by freezing the Company's current investment in them; by releasing the Company's resources to develop new opportunities, and by returning value directly to our public shareholders who have supported our initiatives through the past several years. From that point, we hope to either find a single business opportunity to acquire, which may be a roll-up type transaction, or to recruit investors to support a program to acquire minority positions in a number of business enterprises seeking the benefits of affiliation with a publicly held vehicle.

The Company had a stockholder's deficit at September 30, 2001 of \$1,459,900. This is compared to 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 is committed to refocusing its efforts toward generation of immediate revenues. While we believe the business opportunities presented in both Outdoors and ABS were sound, the extensive need for capital exceeded our available resources, and current economic conditions have made it extremely difficult to raise capital in a situation without a reasonable expectation of near term revenue from operations.

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 and will threaten its ability to continue as a going concern. Currently the Company has issued most of the capital stock authorized to be issued in its Articles of Incorporation. It has commitments in the form of stock options and debt conversion rights in excess of its authorized common stock. It has one class of Preferred Stock authorized with commitments to designate a second class of convertible Preferred stock in the event of an investment by Eagle Capital. There are currently no shares of either class of Preferred Stock currently issued and outstanding. Such shares would also have conversion privileges into common stock in excess of the currently authorized amount. In order to honor these obligations, the Company must seek approval of its shareholders of either a roll-back of its outstanding shares and/or an increase in its authorized capital stock, which approval cannot be guaranteed due to the anticipated expense of holding a shareholder meeting and the large percentage of common stock held by the public.

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 September 30, 2001, the Company had no material commitments for capital expenditures.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

During the Period ended September 30, 2001, there were no material legal proceedings initiated by or against the Company or any of its officers, directors or subsidiaries. Following the end of the current quarter, 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. The enforcement action arose out of the publication of certain press releases issued by former management concerning a proposed acquisition in February of 1998, before the current management team and board of directors took office, and concerned the late filing of a number of the Company's periodic financial reports over a period of several years since its initial public offering in 1987 through November of 1998 when the current management team brought the Company's financial reporting obligations current after taking over in May of that year. Otherwise, no material legal proceedings other than routine matters involving the ordinary business operations of the company have been instituted or are anticipated.

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: November 19, 2001

By: /s/ Thomas Y. Gorman, CFO

Thomas Y. Gorman, CFO

Principal Financial and Accounting Officer