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ARETE INDUSTRIES INC
Form 10KSB
April 15, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-KSB

Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2004

Commission file No. 33-16820-D

OR

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

ARETE INDUSTRIES, INC.

(Exact Name of Small Business Issuer as Specified in Its Charter)

Colorado

(State or Other Jurisdiction of
Incorporation or Organization)

84-1508638

(I.R.S. Employer
Identification Number)

7102 La Vista Place, Suite 100, Niwot, Colorado,

(Address of Principal Executive Offices)

80503

(Zip Code)

(303) 652-3113

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12 (b) of the Act: None

Securities registered pursuant to Section 12 (g) of the Act: None

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(s), and, 2) has been subject to such filing requirements for the past 90 days. YES NO

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

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State Issuer's revenues for the most recent fiscal year: \$ 0

On April 14, 2005, the Registrant had 149,236,582 shares of common voting stock held by non-affiliates. The aggregate market value of shares of voting and non-voting common equity held by non-affiliates was \$395,477 on this date. This valuation is based upon the average of the best bid and ask price for shares of common voting and non-voting equity of the Registrant on the "Electronic Bulletin Board" of the National Association of Securities Dealers, Inc., ("NASD") on April 13, 2005.

ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PAST FIVE YEARS

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15 (d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

YES [] NO []

APPLICABLE ONLY TO CORPORATE REGISTRANTS

On April 14, 2005, the issuer had 216,209,867 shares of no par value common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g. Part I, Part II, etc) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 ("Securities Act"). The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1990).

None

Transitional Small Business Disclosure Format: Yes [] No [X]

PART I

Item 1- Description of Business

Forward Looking Statements

This Annual Report on Form 10-KSB 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 Annual Report on Form 10-KSB are forward looking. We use words such as "anticipates," "believes," "expects,"

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"future" and "intends" and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. The Company's actual results may differ significantly from management's expectations. The following discussion includes forward-looking statements regarding expectations of future profitability of our business and the businesses we choose to invest in, 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 and cost of new investment capital, the ability of the Company to attract viable business ventures and the ability of those ventures to achieve their stated objectives, economic and political uncertainty, and the timing of the Company's investments, customer spending patterns, the mix of products sold to customers, the mix of revenues derived from product sales as compared to services, and risks of fulfillment throughout and productivity. These risks and uncertainties, as well as other risks and uncertainties, could cause the Company's actual results to differ significantly from management's expectations.

General Development of the Business

Arete Industries, Inc., (the "Company") was organized under the laws of the State of Colorado on July 21, 1987, under the name "Travis Investments, Inc." In late 1987 the company completed a blank check public offering and merged with a company named Vallarta, Inc., and its subsidiary Le Mail, Inc., where after the name was changed to Travis Industries, Inc. On September 1, 1998, the shareholders approved the name change of the Company to Arete Industries, Inc. Since then, the Company has been in an evolutionary process of becoming a seed and growth stage business development company originating several in-house business initiatives as well as business initiatives for outside clients.

From inception in 1987 until early March 2000, the Company was in the business of cooperative direct mail coupon advertising. This business included a nationally franchised sales force and an in-house printing and mailing facility assembled from several business acquisitions made by the Company from inception through 1994, when the Company underwent a reorganization and change in control. From 1995 until May 1, 1998, the Company's former management sought the acquisition of an entirely new business while maintaining the coupon printing business for possible sale or liquidation.

In May 1998, a second change in control was implemented and its then officers and directors resigned and were replaced by the current Chairman and CEO. At that time the Company became a holding company by the formation of a new minority-owned subsidiary corporation, Aggression Sports, Inc. to develop business opportunities in the outdoor sports industry brought in by the new CEO. The Company also transferred all print and direct mail operations in Council

Bluffs, Iowa, including certain operating assets and liabilities into a second, wholly owned subsidiary, Global Direct Marketing Services, Inc. Following the end of the fiscal year ended December 31, 2004, 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.

From May 1998 until March 2000, new management undertook to turn the printing and direct mail operations around by moving operations to Denver and joining facilities with an independent logistics and fulfillment operation. In the spring of 2000, the business was deemed incapable of rehabilitation and was liquidated and permanently discontinued.

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Beginning in 2000, the Company launched its first entirely new business initiative to cultivate start-ups as a new business incubator. In May of 2000, the Company's CEO brought in a new management team to provide financial, management, technical and marketing services along with on-site operating facilities and administrative staff to young companies to help them raise outside capital and execute their business plans in exchange for equity participations and management fees. The Company took in three incubation projects, the Arete Outdoors' outdoor sports products venture; the Applied Behavior Systems ("ABS") commercialization of a computer automated artificial intelligence-based speech learning system for the learning disabled; and several new spin-off applications of the ABS artificial intelligence technology through a new company, Seventh Generation Technologies, Inc. ("7GT"). While the Company achieved tangible success in bringing these new business entities forward with its own limited resources, including significant financial resources contributed by principals of the Company, due largely to the adverse economic conditions surrounding the 'dot-com' crash, these entities were unable to generate further investment capital and/or strategic financial and industry partners to sustain their development. The Company attempted to reconfigure and redirect these ventures to more viable business models suitable to the then current business environment, but was forced to terminate its financial and management support of these business ventures, and to turn its focus toward ensuring its own survival.

By the middle of 2001 and continuing through mid-2002, the Company was downsized to two employees, office equipment was liquidated and overhead was reduced to a minimum. During this time, the Company looked for opportunities to assist more mature emerging and high growth-stage businesses with financial and board level managerial support with a view of taking such companies public through a registered rights offering or dividend spin-off distribution to the Company's shareholders. To assist these efforts, the Company launched an initiative with an independent corporate and commercial bond financing originator to develop a captive source of investment capital for its venture development activities. While a number of projects were originated and in progress, the events of September 11, 2001 essentially neutralized these efforts. In December 2001, the Company began a private placement of up to \$200,000 in Series 2 Convertible Preferred Stock. This subscription was completed in March 2003 with the investment by affiliates of the Company's then two directors and certain non-affiliated investors of \$100,000 in cash and by the conversion of \$100,000 in notes payable to unrelated parties into 20,000 shares of Series 2 Convertible Preferred stock, convertible into 20,000,000 shares of Common Stock of the Company. At the end of 2002, once most of the equipment and inventory from our discontinued operations had been disposed of, we closed our offices in Boulder and moved to an executive suite in Niwot, Colorado to reduce overhead. We still maintain a storage facility for our files, furniture and the Arete Outdoors inventory which is currently held for sale or disposal.

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In July 2002, the shareholders approved a 20 to 1 reverse stock split of our common stock without reducing authorized capital. From mid-2002 through the second quarter of 2003, we pursued a number of business development projects as acquisition or dividend spin-off candidates and corporate finance clients. Our efforts were impaired by the lack of availability of outside investment capital and because our internal bond funding venture failed to produce results. By June 2003, we terminated our efforts to develop acquisition capital through bond and other equity fund instruments, and embarked on an entirely new business model pursuing traditional and alternative energy investments.

In September of 2003, we added three independent directors to help the Company upgrade our corporate governance and to support our CEO in executing this new

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business model. These new independent directors form the Company's Audit, Compensation and Nominating Committees of the board of directors. During the fall of 2003, we retained several independent business and financial consultants to assist in focusing our business plan, developing investment banking relationships, perform business development, public and financial relations and to help recruit advisory board members to add expertise in traditional and alternative energy.

To more appropriately reflect our current business activities and operations, in August of 2003 we recast the Company as in its development stage, and bifurcated our financial statements to reflect discontinued operations separately from continuing operations. Since that time, our continuing operations have consisted of development of business opportunities in traditional oil and gas by direct acquisition and funding of drilling and/or development partnerships and joint ventures. We also have continued our efforts to improve our corporate governance, our securities law compliance, and liquidating or disposing non-productive and unused operating assets and eliminating debt barred by the statute of limitations. Without revenue, we have operated in reliance on contributions from affiliates throughout 2003 and 2004, on accrual and deferral of executive compensation, and payment for advisory and consulting services with common stock and stock options.

Our efforts in these areas reflect our intent to attract new investors and give the Company additional transactional options including a possible acquisition through a reverse merger. We also are in the process of identifying and qualifying several ventures for placement into new subsidiaries and possibly spinning them out to our shareholder base in a stock dividend and/or rights offering in the near-term.

Current Business of the Company

In 2003 and continuing through the present, we continue to recast and refocus our business development activities in the Energy Industry. This includes attempts to acquire participating interests in traditional oil and gas development projects, primarily of overlooked and by-passed reserves of oil and/or natural gas in the Western Hemisphere. Additionally, we are looking to purchase non-operating positions in producing fields with the possibility of additional in-field development. Both these approaches allow us access to both debt and equity capital and an opportunity to earn-in equity positions or a "promote" for organizing and managing the project. This approach serves our entry-level objective of establishing revenue and an asset base for further expansion. We have sought to pursue projects with high-profit potential, low entry-cost and low exploration risk to take advantage of rising domestic energy prices and relatively inexpensive capital becoming available for low risk projects. In this way we seek to avoid the high cost of capital associated with more speculative 'wildcat' projects where investors require well capitalized participants with substantial track records. We are currently working with an expanding base of oil and gas prospect generators, independent energy developers and private and institutional investors. We are also looking for an opportunity to acquire one or more established oil and gas companies whose owners either require liquidity for expansion or an exit strategy.

Our longer term vision is to leverage future traditional oil and gas investments into alternative and renewable energy development projects including bio-mass, co-generation, solar, wind, municipal and organic waste conversion into bio-fuels and alternative electrical energy feed stocks. In this connection, our

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longer term vision is to expand financial services capabilities into development of energy investment funds and traditional and alternative energy trading, including barter. This will require that we develop significant infrastructure and working capital, which at this stage, cannot be assured with any level of certainty. Additionally, while the Company contemplates focusing its energy and resources on this plan for the indefinite future, it has not entirely abandoned its vision of assisting promising emerging and high growth-stage businesses with financial and board level managerial support with a view of taking such companies public through a registered rights offering or dividend distribution to the Company's shareholders.

We have been moving aggressively to achieve all of our objectives despite a number of challenges not the least of which are our minimal financial and human resources. And while these circumstances have made our business development efforts problematic, throughout 2004, we were tenacious in pursuing several attractive oil and gas development prospects. Beginning at the end of 2003, we engaged in two specific projects aided by several business and financial consultants. In the second quarter of 2004, we established a formal relationship with an investment banking consulting firm specializing in oil and gas financing, which provides valuable advice and support in our ongoing evaluation of new prospects. This group provides us with access to numerous professional equity funding sources that specialize in financing oil and gas development projects.

The two prospects we undertook to acquire and fund during 2004 utilized significant company resources and after considerable due diligence and review by our investment banking consultant, were ultimately rejected. The typical project we have been looking at has required from \$15 to \$25 Million in acquisition and drilling capital. Although we have been able to develop a considerable number of new candidates, we have very recently determined to pursue a less challenging path for the near-term to acquire producing properties with in-field development potential, and of considerably smaller size that will provide cash flow for operations and create free assets for a borrowing base to achieve sustainable near-term growth. Several new prospects of this nature were introduced to the Company during the fourth quarter of 2004 by one of our outside directors, and we are currently moving forward to secure debt and equity funding to purchase a non-operating interest in this project.

In the fourth quarter of 2004, the Company formed a new subsidiary to pursue an acquisition of one of the mentioned prospects with a number of producing wells and several potential new in-field or offset wells in Northeastern Colorado. The subsidiary was initially capitalized by small cash contributions made personally by three of the Company's outside directors including the introducing director for an aggregate of 15% of the new subsidiary's common stock with the understanding that the Company would receive the other 85% of the founders' stock. It is contemplated that this prospect would, if possible, be financed through a portion of short-term bank financing plus private equity through third parties which will in all likelihood dilute the Company's equity position by an as yet undetermined amount. At this time, the subsidiary is negotiating terms of an acquisition agreement subject to financing and completion of due diligence, which is targeted to be completed during the second quarter of fiscal year 2005. In the event that this transaction does close, it is the intent of the Company and the three outside directors, to pursue a dividend spin-off of this subsidiary to the Company's shareholders during fiscal year 2005, of which there

can be no assurance that a purchase agreement will be executed or that proposed

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debt and equity financing will be completed in any agreed upon time frame, if ever. Additionally, the three outside directors who are acting as the board and executive officers of the new subsidiary will directly benefit from their equity and management positions in the new subsidiary and as such, their dealings will not be considered at arm's length with the Company or the subsidiary. (See: Certain Relationships and Related Transactions, Transactions with Management and Others.)

Current Capitalization of the Company.

Effective July 15, 2002, the shareholders of the Company approved a 20 for 1 reverse stock split. All common share references herein have been revised to reflect the reverse split. The Company has 500,000,000 shares of Capital Stock authorized of which 1,000,000 shares have been designated \$10 face value Class A Preferred Stock pursuant to an Amended Certificate of Class A Preferred adopted by the board of directors on February 26, 2001. As of April 14, 2005 there are 216,209,867 shares of common stock, no par value, issued and outstanding, and no shares of Class A Preferred Stock outstanding as of December 31, 2004.

As of December 31, 2003, there were 19,200 shares of Series 2 Class A Preferred outstanding that were convertible into 19,200,000 shares of common stock. On March 25, 2004, 4,050 of such shares were converted into 4,050,000 common shares and distributed to unaffiliated parties. Additionally, on October 27, 2004, the remaining 15,150 shares of such Series 2 Preferred were distributed to an affiliate of the CEO and converted into 15,150,000 common shares, and the Series 2 Convertible Preferred Shares was retired. (See: Security Ownership of Certain Beneficial Owners and Management, Certain Relationships and Related Transactions.)

Intellectual Property

There is no intellectual property of Arete Industries for its current business focus other than the intellectual property and trademarks developed in its subsidiaries and investments. The Company owns certain US registered trademarks associated primarily with its subsidiary, Aggression Sports, Inc., and certain trademarks associated with its discontinued print and direct mail operations, which, pending other decisions, it intends to maintain in full force and effect.

Seasonality of Business

There is little to no seasonality for Arete Industries in its current business focus. The primary external economic factor is the business cycle, which is not seasonal.

Market and Competition

The Company will compete as a financial intermediary with substantially more mature and well funded financial institutions, investment banks and venture capital organizations for acquisition and capital funding opportunities in traditional and alternative energy projects. We will also compete with well-funded major oil and gas exploration companies, as well as large corporate energy technology firms that are sponsoring alternative and renewable energy projects, especially in co-generation and waste to energy projects. We believe that economic conditions in the United States and elsewhere are exceptionally harsh to young growth-stage companies in terms of obtaining funding and senior management support, but that there also is an abundance of promising investment opportunities that fall below the radar screens of these larger concerns. We perceive a significant opportunity for the Company to lie in the traditional oil and gas and the alternative and renewable energy sectors. We especially see a

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successful entry strategy involving re-development of capped and shut-in natural gas fields where re-entry and re-working projects in large, known producing fields can yield significant returns without the attendant risks of wildcat exploration projects. There is an abundance of overlooked and by-passed reserves of natural gas and a number of experienced independent oil and gas development companies looking for development capital. Redevelopment of existing natural gas fields that were abandoned during times of significantly lower prices and lack of transportation facilities is a trend that has just begun to gain popularity with professional investors and traditional private energy investors. Again, to meet these competitive conditions, the Company must be able to demonstrate that it can execute on its ability to source equity or debt capital for its potential portfolio companies, as well as execute its dividend spin-off program effectively. To meet this challenge, the Company needs to build a track record and demonstrate that it has access to capital, of which there can be no assurance.

Cost of Compliance with Environmental Laws

As a financial intermediary for energy development that will represent investors in these ventures, there is no direct liability or operating cost to the Company associated with significant waste by-products which are discharged into the environment or which require special handling or the incurring of additional costs for disposal. While, as a technical matter these costs are associated with traditional oil and gas as well as alternative and renewable energy projects, they represent investment risks to the Company and its prospective client investors. Accordingly, costs of compliance with environmental laws, rules and regulations have not been segregated and are believed to be nominal. The Company is unaware of any pending or proposed environmental laws, rules or regulations, the effect of which would be adverse to its contemplated operations.

Employees

Arete Industries' CEO is currently employed as an independent contractor and has been compensated during the current fiscal year in common stock and has accrued a significant amount of his salary, which has recently been converted into a convertible promissory note. He devotes such time to the Company as is necessary to pursue its business plan and perform legal and administrative tasks required by the federal and state securities laws and regulations. He is not constrained from pursuing other ventures outside of the Company including oil and gas ventures, provided he notifies the board of directors upon recognition of an oil and gas opportunity and first offering such opportunity to the Company through its independent board members. We employ one administrative assistant who is also an independent contractor under a monthly stipend. The other directors and an executive officer are being compensated for their input and consultation on a project by project basis as well as for the risk associated with holding a position as an officer and director of a public company without Errors and Omissions Insurance.

Item 2-Description of Property

Arete Industries Inc. currently leases approximately 200 square feet of office space in an executive suite located in Niwot, Colorado, seven miles North of Boulder, Colorado. The Company also rents an off-site storage facility. It is anticipated this location is sufficient for Arete's business development operations for the foreseeable future.

Item 3-Legal Proceedings

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As of the date of this Report, there were no material pending or contemplated legal proceedings against the Company or any of its subsidiaries, other than routine matters incidental to the business.

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Item 4-Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 2004.

PART II

Item 5-Market for Registrant's Common Equity and Related Stockholder Matters

The common stock of the Company is listed on the Over the Counter "Electronic Bulletin Board" of the National Association of Securities Dealers, Inc., ("NASD") under the symbol "OTCBB:ARET".

The following table shows the range of quarterly high and low bid quotations for the Company's common stock for the past two fiscal years, as reported by NASDAQ's OTC Bulletin Board. Prices reflect inter-dealer prices and do not necessarily reflect actual transactions, retail mark-up, mark-down or commission, and are adjusted retroactively to reflect a 20 to 1 Reverse Stock Split, which was effected July 15, 2002.

STOCK QUOTATIONS

Fye 12/31/03

BID

Quarter Ending	High	Low
3/31/03	0.03	0.01
6/30/03	0.029	0.01
9/30/03	0.019	0.01
12/31/03	0.069	0.01

Fye 12/31/04

Quarter Ending	High	Low
3/31/04	0.038	0.016
6/30/04	0.03	0.0102
9/30/04	0.011	0.005
12/31/04	0.022	0.005

As of April 14, 2005 the number of record holders of the Company's common stock was 423. This number does not include the indeterminate number of stockholders whose shares are held by brokers as "nominees" or in street name.

Dividends

The Company has not paid any dividends with respect to its common stock and it is not anticipated that the company will pay dividends in the foreseeable future. There are no accrued dividends outstanding on any class of Preferred Stock of the Company.

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 and preferred stock, and options to purchase its common stock and preferred stock as well as accrual of salary of its senior executive officer 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 options issued to consultants are recorded at the fair value of the Company's options computed using the Black-Scholes Model.

Overview.

Effective July 15, 2002, the Company enacted a recapitalization of its outstanding common shares by effecting a 20 to 1 reverse stock split, done without changing the total amount of authorized common shares. All references herein to common stock have been restated to reflect the effect of this reverse split.

During the third quarter of 2003, the Company was reclassified as being in its development stage with the cessation of operations of its Aggression Sports, Inc. subsidiary; having discontinued operations as a business development company focusing 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, which contemplates the formation of capital and management resources to pursue development of new business opportunities in these areas. This reclassification of the Company as in its 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 conditional as it pursues its new business plan. This Report and the accompanying audited financial statements have been revised to reflect this reclassification and divergence from its past business endeavors including losses from the write down

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of assets and valuation of assets held for disposal from discontinued operations. (See: Notes to Financial Statements - Note 1 Summary of Significant Accounting Policies.)

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Since the beginning of 2002, we terminated our business incubation business; discontinued operations of its Aggression Sports, Inc. subsidiary; downsized operations to a single executive suite and a single administrative assistant to the CEO. From the third quarter of 2002 forward through the third quarter of 2003, the CEO deferred his salary and continued as CEO in an independent contractor status to allow him the opportunity to supplement his income from legal and consulting fees from outside clients and to pursue outside opportunities that are neither in conflict with, nor in competition with the current business interests of the Company. The CEO resumed accruing consulting fees in November of 2004, and beginning in the second quarter of 2005, has discontinued his employment agreement to negotiate his compensation with the board on a quarterly basis. The Company believes that the overhead consisting of staff, outside consultants and facilities, coupled with the deferral of salary and/or payment of professional business consulting services in common stock are at their absolute minimum to ensure the Company remains viable and current in its reporting under the federal securities laws, as a public company, which Management believes is its primary advantage and sole means of developing future value for its shareholders.

The Company changed its course in mid 2003 to focus its primary efforts on generating new projects in the traditional and alternative and renewable energy sectors of the Energy Industry. During the first quarter of 2004, the Company originated a series of two ventures to develop certain domestic oil and gas prospects in known oil and gas fields in Texas and Oklahoma. These prospects required raising equity capital through professional equity investors for each in excess of \$20 Million and took considerable time and resources of the Company to investigate and validate. For a variety of economic and technical factors the first project was terminated in April of 2004 and the second project was terminated in the first quarter of 2005. At the instance of certain of the outside board members, a new project was initiated in the first quarter of 2005 to acquire a project with a number of proven producing wells with in-field drilling capabilities into a majority owned subsidiary of the Company. This project is in its very early stages of documentation, validation and preparation for funding, and there are no assurances that this project will ultimately be realized. In recognition of the Company's limited resources, the board of directors has shifted the company's immediate focus toward pursuing significantly smaller projects that will spin out cash flow, that will sustain our operations and provide a base for growth from producing and proven undeveloped properties.

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. To date these efforts have been funded by cash advances from related parties, by the issuance of common stock for services and from proceeds from exercise of stock options. The Company will be required to rely upon ongoing financial support from these parties for the foreseeable future.

Financial Condition

During fiscal year ended December 31, 2004, we have principally written down assets held for disposal from discontinued operations either entirely or by a percentage that we have estimated would reasonably be recovered from liquidation

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or by selling the entire business opportunity outright to a third party. As of December 31, 2004, the Company had \$7,090 in total assets after a write-off of \$50,890 in accrued interest receivable and \$25,243 of inventory and molds held for disposal relative to discontinued operations. This compares to total assets of \$89,438 as of December 31, 2003. Total liabilities were \$941,977 as of December 31, 2004 compared to \$1,193,123 as of December 31, 2003. Accounts payable and accrued expenses at December 31, 2004 were \$919,890 as compared to \$1,162,900 at December 31, 2003. During the fiscal year ended December 31, 2004,

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liabilities were reduced by \$251,146 including \$54,054 from extinguishment of debt and \$232,250 in payment of accrued wages to the CEO with common stock. The operating losses from continuing operations of \$977,037 and extinguishment of debt of \$54,054 resulted in a net loss of \$922,983 contributing to the accumulated deficit as of December 31, 2004 of \$12,523,565, as compared to an accumulated deficit as of December 31, 2003 of \$11,600,582. (See: Note 1 to Financial Statements.)

The Company's subsidiary, Global Direct Marketing Services, Inc., which is now inactive, had, as of December 31, 2003, left an obligation of trade payables of \$54,055 and \$58,230 in unpaid payroll taxes, and as of December 31, 2004, all \$54,055 of the trade payables were reclassified as extinguished. During 2003, the Company abandoned the development of the Aggression Sports, Inc. subsidiary. At December 31, 2004, the remaining liabilities of this subsidiary were \$91,077 in trade payables and \$79,351 in unpaid payroll taxes. As of December 31, 2004, 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 fiscal year ended December 31, 2004, the Company continued to rely upon infusions of cash from exercise of stock options, loans and cash advances by officers, directors and affiliates of the Company. During the fiscal year ended December 31, 2004, the Company paid prior period accrued salary and converted a previous settlement agreement with the CEO valued at \$405,000 into 25,000,000 shares unregistered common stock; paid \$223,750 in compensation to officers and directors with 20,140,947 shares of common stock and \$344,673 to consultants and professionals with 21,861,495 shares of common stock; received \$60,000 in cash from an unrelated party in exercise of stock options, received \$19,000 in cash on exercise of stock options by officers and directors; and booked an expense of \$20,858 (net of \$5,562 credited on cancellation of 1,000,000 share option) in value of stock options granted to consultants using the Black-Sholes option pricing model. As of December 31, 2004, 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 \$ 222,830.

Results of operations

As stated above, at the beginning of the third quarter of fiscal 2003, 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 fiscal year and for fiscal 2003. (See: Note 1 to Financial Statements.)

The Company had no revenues from operations for the fiscal year ended December 31, 2004 nor for fiscal year ended December 31, 2003. Net loss from continuing

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operations for the fiscal year ended December 31, 2004 was \$977,037 as compared to a net loss from continuing operations of \$463,041 for the fiscal year ended December 31, 2003. The net loss from discontinued operations for the fiscal year ended December 31, 2003 was \$383,374. The extinguishment of debt of \$123,141 offset other losses in fiscal year ended December 31, 2003. This resulted in an aggregate net loss for the fiscal year ended December 31, 2003 of \$723,274. The increase in net loss during the fiscal year ended December 31, 2004 over the prior year of \$199,709 is largely due to compensation to officers, directors, professionals and consultants.

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In January 2003, the Company moved to an executive suite on a month to month basis reducing its rent to \$1,000 per month. The Company continues to rent storage space for file storage, furniture and excess equipment as well as its Arete Outdoors inventory for approximately \$125 per month.

As stated above, we will continue to operate the Company on an austere program of minimum overhead, while obtaining access to expertise in the areas we are pursuing 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 December 31, 2004 of \$938,856. This compares to a working capital deficit of \$1,104,774 in the fiscal year ended December 31, 2003. During the 12-month period ended December 31, 2004 an aggregate of 100,453,142 shares of common stock were issued for aggregate consideration of \$1,406,937, (avg. \$0.014 per share) and recorded \$20,858 in value of stock options granted to consultants. This compares to the 12-month period ended December 31, 2003 in which an aggregate of 48,193,045 shares of common stock were issued for aggregate consideration of \$759,469 (avg. \$0.0158 per share), recorded \$31,647 in value of stock options granted to consultants, and the Company issued 1,458 shares of Series 2 Convertible Preferred Stock at face value of \$14,575.

The Company had a stockholder's deficit at December 31, 2004 of \$934,887. This is compared to stockholder's deficit at December 31, 2003 of \$1,103,685. The stockholder's deficit decreased due to the Company's net operating loss offset by the exercise of stock options for cash and an increase in payments for services with common stock.

At December 31, 2004, the Company had no material commitments for capital expenditures.

Due to its recent liquidity issues, the Company has defaulted on several short

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

During the second quarter of 2002, the Company reduced the number of outstanding common shares (through a 1 for 20 reverse stock split) to allow it to raise new equity capital and to effect conversion and exercise of outstanding common stock options and conversion rights of preferred stock which had been reserved for issuance to insiders in exchange for their accrued cash advances, and for issuance in a private placement of \$200,000 in Series 2 Convertible Preferred stock, which the Company completed on August 14, 2003. As of December 31, 2004, all outstanding shares of Convertible Preferred Stock had been converted into common stock.

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The Company relies on infusions of cash for operations from officers and directors, from deferral of salary, from services rendered for stock compensation, and from proceeds of exercise of stock options. The Company's success depends upon its ability to generate revenue from oil and gas projects in the form of management fees and equity participation in revenue streams from projects it is currently pursuing and future projects developed from its business development activities introduced by its officers, directors and consultants.

(See: Executive Compensation Tables and Notes thereto.)

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-term.

Item 7-Financial Statements

The financial statements listed in the accompanying index to financial statements are set forth under Part IV, Item 13 to this report and incorporated herein by reference.

Item 8-Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

On May 5, 2004, Causey Demgen & Moore, Inc. ("CDM") notified our audit committee that it was declining to stand for re-election as the Company's independent registered public accounting firm as of May 5, 2004. On that date the audit committee made the decision to engage Ronald R. Chadwick, PC ("Chadwick") for the fiscal year ending December 31, 2004 as our new independent registered public accounting firm, as of that date.

The change in accountants was mandated by the limitations on terms for independent registered public accounting firms imposed under the Federal Securities Laws, including the Sarbanes-Oxley Act. The reports of CDM on our financial statements for the years ended December 31, 2002 and 2003 did not

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contain an adverse opinion or disclaimer of opinion, or was modified as to uncertainty, audit scope, or accounting principle. However, CDM's reports for the years ended December 31, 2002 and 2003 included an explanatory paragraph noting our recurring losses from operations and our requirement for additional funding, which raised doubt about our ability to continue as a going concern.

In connection with its audits of our financial statements for the years ended December 31, 2002 and 2003, there were no disagreements with CDM on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of CDM, would have caused it to make reference thereto in its reports.

During our two most recent fiscal years and the period from the end of the most recent fiscal year to the date of appointment of Chadwick, neither we nor anyone acting on our behalf consulted with Chadwick with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, or any other matters or event set forth in Items 304(a)(2)(i) and (ii) of Regulation SB.

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PART III

Item 9 - Directors, Executive Officers, Promoters and Control persons:
Compliance with Section 16(a) of the Exchange Act.

(a) Officers and Directors

Thomas P. Raabe (51) Chairman and CEO

Mr. Raabe has served as Chief Executive Officer and a Director of the Company since May 1, 1998. Mr. Raabe formerly served as special securities and business counsel on specific projects from time to time for the Company since approximately 1994. Mr. Raabe has 18 years experience as an entrepreneurial attorney and business consultant, practicing law in Colorado and representing corporate clients in complex situations across the nation. As a solo practitioner, Mr. Raabe has specialized in securities transactions and compliance, entity formation and governance, business reorganizations, mergers and acquisitions, and technology protection and exploitation. Mr. Raabe has been a founder, director and/or counsel for a number of start-up and development stage companies including robotics, high technology, durable medical equipment, advanced composites, optics, engineering, film entertainment and most recently, outdoor and extreme sports ventures. Mr. Raabe has been involved as special counsel for a number of public and private companies with the responsibility to design and execute corporate finance transactions, turn-arounds and capital restructuring projects and corporate securities compliance for several Securities Exchange Act reporting companies. Prior to joining the Company as CEO in May of 1998, Mr. Raabe entered into a letter of intent with the Company to acquire an entity he controlled to pursue acquisitions of outdoor sports businesses through his contacts. In February 1998, a press release was issued concerning this transaction and a potential acquisition candidate, which was later made subject of an enforcement action against the Company by the Commission. This action has been settled as of October 2001 in which Mr. Raabe and the Company agreed to consent to imposition of an administrative order against them, without Mr. Raabe or the Company admitting or denying the findings of fact contained therein, and without the imposition of any financial or other

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sanctions against them, to cease and desist from committing or causing any violations and any future violations of Sections 10(b), 15d-1 and 15d-3 of the Exchange Act and Rules 10b-5, 15d-1 and 15d-13, thereunder. Mr. Raabe received his undergraduate degree in political science from the University of Denver and his Juris Doctorate from the University of Denver, College of Law, in 1981. In addition, Mr. Raabe pursued a graduate degree in Mineral Economics jointly with his law degree and completed three semesters graduate course work and comprehensive examinations toward a doctorate degree from the Colorado School of Mines.

William W. Stewart (43) Director.

Mr. Stewart joined the board of directors on December 19, 2001 at the time the Company entered into a Letter of Intent with Mr. Stewart to form a subsidiary corporation to pursue acquisition and management of minor league sports franchises. From December, 2001 until August, 2002, Mr. Stewart ran the operations and directed the business plan of Eagle Capital Funding Corp. (Eagle Capital) to pursue capital funding projects, In addition to serving as an outside director, Mr. Stewart provides consulting services to the Company relating to corporate finance, mergers and acquisitions. (See - Certain Transactions with Management and Others). From 1986 to 1994, Mr. Stewart worked

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in the brokerage industry as an NASD licensed registered representative. He started his career with Boettcher and Company of Denver, Colorado and left the Principal Financial Group of Denver, Colorado in 1994 to open his own small-cap investment firm, S.W. Gordon Capital, Inc., where he has been its president since 1994 to the present. He has consulted with many small companies, both public and private, on capital formation and mergers and acquisitions. Mr. Stewart formerly served as CEO and is an owner of Larimer County Sports, LLC, a Colorado Limited Liability Company, which owns the Colorado Eagles Hockey Club a minor league professional hockey franchise in northern Colorado. Mr. Stewart was born in The Pas, Manitoba, Canada. Mr. Stewart attended the University of Denver on a full athletic scholarship where he played hockey from 1979 to 1983 as right wing and served as assistant captain during his senior year. Mr. Stewart graduated with a BS, Business Administration from the University of Denver in 1983, with honors as a Student Athlete.

Donald W. Prosser (54) Director.

Mr. Prosser joined the Company's Board of Directors in September of 2003, serving as Director and member of the Company's Compensation, Audit, Policy, and Compensation Committees. He has been designated as the Company's Financial Expert under the Sarbanes-Oxley Act. Mr. Prosser is a professional CPA, specializing in tax and securities accounting, and has represented a number of private and public companies serving in the capacity of CPA, member of boards of directors, and as Chief Financial Officer. Mr. Prosser brings to the Company his great depth of expertise in tax and securities compliance and accounting, corporate finance transactions and turn-arounds.

From 1997 to 1999, Mr. Prosser served as CFO and Director for Chartwell International, Inc, a public company publishing high school athletic information and providing athletic recruiting services. From 1999 to 2000, he served as CFO and Director for Anything Internet, Inc. and from 2000 to 2001, served as CFO and Director for its successor, Inform Worldwide Holdings, Inc., which is a publicly traded company. From 2001 to the present, Mr. Prosser serves as CFO and

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Director for Net Commerce, Inc, a public company selling internet services. Since November 2002 through the present, Mr. Prosser serves as a director and CFO of VCG Holding Corp., a public company engaged in the business of acquiring, owning and operating nightclubs, which provide premium quality entertainment, restaurant and beverage services in an up-scale environment to affluent patrons. His accounting firm performs accounting service for VCG Holding Corp.

Mr. Prosser has been a Certified Public Accountant since 1975, and is licensed in the state of Colorado. Mr. Prosser attended the University of Colorado from 1970 to 1971 and Western State College of Colorado from 1972 to 1975, where he earned a Bachelor's degree in both accounting and history (1973) and a Masters degree in accounting - income taxation (1975).

Charles L. Gamber (54) Director.

Mr. Gamber joined the Company's Board of Directors in September of 2003, serving as an independent Director, and as a member of the Company's Compensation, Audit, Policy, and Compensation Committees.

Mr. Gamber is currently the President and CEO of 86 Phoenix, LLC, a real estate and property development corporation doing business in Colorado. Mr. Gamber has also served as a Director of Net Commerce, Inc., a public company from 2001 to the present. He has served as a consultant for Donald W. Prosser, PC and VCG Holding Corp., a publicly held company with an emphasis in areas of organizational needs, financial projects, and business development.

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Mr. Gamber has 14 years of sales and service experience in the restaurant industry. He has owned and operated All America Auto Transport of Colorado for 6 years, and was with Toyota Motor Distributors for 5 years, leaving them as a District Sales Manager to pursue his own interests.

Mr. Gamber received a bachelors degree in Business Administration from Western State College in 1973. John R. Herzog (61) Director.
Mr. Herzog joined the Company's Board of Directors in September of 2003, serving as independent Director, and as a member of the Company's Audit, Policy, Nomination and Compensation Committees. He brings a depth of concrete practical and entrepreneurial experience in business start-ups, turn-arounds, technology oriented business and technology development projects.

From 1998 to 2000, Mr. Herzog served as Director of Billing Services for Eglobe, Inc., where he managed daily operations, conversion of the billing system, and generated an additional \$1 million per year of revenue for this company.

From 2000 to 2001, he served as director of IT for Anything Internet, Inc., a public company.

Since 2001, Mr. Herzog has been President of Business Information Systems, Inc., developing applications, consulting on software development, business systems, and programming.

Mr. Herzog has also served as a Director of Net Commerce, Inc., a public company from 2001 to the present.

Mr. Herzog graduated from Drexel University in 1967 with a degree in Electrical

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Engineering, and in 1970 with a Master's degree in Biomedical Engineering. He received a Doctorate in Pathology from Temple University in 1976.

Compliance With Section 16(a) of the Exchange Act. The Company files reports under Section 15 (d) of the Securities Exchange Act of 1934; accordingly, directors, executive officers and 10% stockholders are not required to make filings under Section 16 of the Securities Exchange Act of 1934.

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Item 10 - Executive Compensation

Summary Compensation Table

The following table sets forth the aggregate compensation paid by the Company for services rendered during the last three completed fiscal years, and have been adjusted to reflect a reverse stock split of 20 to 1 effective July 15, 2002:

SUMMARY COMPENSATION TABLE						
					Long Term Compens	
Annual Compensation					Awards	
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Name and Principal Position	Year or Period Ended	\$ Salary	\$ Bonus	Other Annual Compensation	Restricted Stock Awards (\$)	Option/ SAR's (#)
Thomas P. Raabe, CEO, Chairman	12/31/04 12/31/03 12/31/02	\$180,000 \$79,000 (1) \$86,000 (1)			\$172,500 (2)	500,000 (1) 7,000,000 (1)

(1) During 2002, Mr. Raabe forgave \$75,000 in accrued salary for previous periods, accrued \$60,000 in salary for the first two quarters of 2002 and was paid \$26,000 in the form of 2,000,000 shares of common stock. After accruing the first two period's salary in 2002, Mr. Raabe discontinued accrual of his salary until the third quarter of 2003. During 2003, Mr. Raabe's employment arrangement was converted to an independent contractor agreement and was awarded an annual consulting fee of \$180,000. He was paid \$79,000 of this consulting fee in common stock plus was granted stock options to purchase 1,000,000 common shares for \$16,500, 1,000,000 common shares for \$15,500 and 5,000,000 common shares for \$50,000, of which 2,000,000 shares were purchased during the Fourth Quarter of 2003 for \$20,000 in cash and 2,000,000 stock options expired at the end of the first quarter of 2005. Mr. Raabe received \$150,000 in registered common stock and accrued \$30,000 in salary for 2004. He was granted stock options for 500,000 common shares during 2004. (See: Certain Transactions with Management and

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Others).

(2) In March of 2004, Mr. Raabe received additional compensation of \$172,500 in the form of restricted common shares in a settlement with the Company resolving accrued salary of \$232,250 for previous periods and a preferential claim to future stock dividends for stock valued at \$75,000 for a total of 25,000,000 restricted shares valued at \$0.0192 per share. (See Certain Transactions with Management and Others.)

Option/SAR Grants Table

Option/SAR Grants in Last Fiscal Year

Individual Grants

(a) Name	(b) Number of Securites Underlying Options/SAR's Granted (#)	(c) % of Total Options/SAR's Granted to Employees in Fiscal Year	(d) Exercise or Base Price (\$/Sh)
Thomas P. Raabe (1)	500,000	100% (1)	\$0.006

(1) At the time of grant the exercise price exceeded the market price for the underlying common shares by 10%. The four outside directors received stock options during fiscal 2004 as part of their regular compensation, but have not been included in this calculation. See: Compensation of Directors, below.

Aggregated Option/SAR Exercises and Fiscal Year-End Option/SAR Value Table.

Aggregated Option/SAR Exercises in Last Fiscal Year
And FY-End Option/SAR Values

(a) Name	(b) Shares Acquired on Exercise (#)	(c) Value Realized (\$)	(d) Number of Securities Value of Unexercised Underlying Unexercised Options/SAR's at FY-End (#) Exercisable/ Unexercisable	(e) Opt
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Company, based on a modified Lehman's formula, or some other mutually agreeable formula. Termination without cause prior to the termination of the agreement, results in vesting of all contingent benefits, stock options and mandates severance pay in the amount of unpaid, unaccrued salary/consulting fees remaining under the full unexpired term of the agreement. As of April 2, 2005, this agreement has been terminated and Mr. Raabe's consulting arrangement with the Company will be negotiated on a quarter by quarter basis with the outside board members.

Contractual Arrangements Regarding Changes in Control. There are no arrangements known to management, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in the control of the Company. Pursuant to terms of the Class A Preferred, under certain conditions of default, holders of a Series of the Class A Preferred entitled by virtue of the Company's default of such provision, may call a special shareholders' meeting and remove the board of directors, appoint a new board of directors, a receiver or a trustee until such time as such defaults are cured or remedied. No shares of the Class A Preferred Stock are currently outstanding.

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Item 11 - Security Ownership of Certain Beneficial Owners and Management.

Stock Ownership of Certain Beneficial Owners

The following table sets forth the shareholdings of the Company's directors and executive officers and those persons who own more than 5% of the Company's common stock as of April 14, 2005.

Certain Beneficial Owners of More than 5%			
(1)	(2)	(3)	(4)
Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Class
None(1)			

(1) During 2004, two affiliated companies converted all of their shares of Series 2 Convertible Preferred Stock into Common Stock of the Company and made liquidating distributions of the converted shares to their respective members. With the exception of the CEO and certain affiliates of the CEO, none of the recipients of such shares constitutes a group, nor otherwise controls 5% or more of the outstanding common stock of the Company.

Security Ownership of Management

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(1)	(2)	(3)	(4)
Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of
	Directors and Executive Officers		
Common Stock	Thomas P. Raabe Director/CEO c/o 7102 La Vista Place, Suite 100, Niwot, Colorado 80503	Direct: 41,644,235 Indirect: 3,748,224 Total: 45,392,459 (1)	20.6%
Common Stock	William W. Stewart Director/Secretary c/o 7102 La Vista Place, Suite 100 Niwot, Colorado 80503	Direct: 8,291,666 (2)	3.8%
Common Stock	Donald W Prosser Director c/o 7102 La Vista Place, Suite 100 Niwot, Colorado 80503	Direct: 12,548,000 (3)	5.8%
Common Stock	Charles L. Gamber Director c/o 7102 La Vista Place, Suite 100, Niwot, Colorado 80503	Direct: 5,900,000 (4)	2.7%
Common Stock	John R. Herzog Director c/o 7102 La Vista Place, Suite 100, Niwot, Colorado 80503	Direct 4,591,160 (5)	2.1%
Common Stock	Directors and Executive Officers as a Group	Total: 76,723,285 (6)	33.97%

(1) Includes Directly Owned 37,344,235 common shares, plus 3,748,224 indirectly owned, 4,300,000 common shares issuable on exercise of common stock options, which the Beneficial Owner has the right to acquire within 60 days. Percentage calculated based on 220,509,867 total common shares including 216,209,867 common shares outstanding plus 4,300,000 common shares issuable on exercise of stock options which the Beneficial Owner has the right to acquire within 60 days.

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- (2) Includes Directly Owned of 7,041,666 shares plus 1,250,000 common shares issuable on exercise of common stock options, which the Beneficial Owner has the right to acquire within 60 days. Percentage based on 217,459,867 total shares including 216,209,867 currently outstanding plus 1,250,000 common shares issuable on exercise of stock options, which the Beneficial Owner has the right to acquire within 60 days.
- (3) Includes Directly Owned of 11,173,000 shares plus 1,375,000 common shares issuable on exercise of common stock options which the Beneficial Owner has the right to acquire within 60 days. Percentage based on 217,584,867 total shares including 216,209,867 currently outstanding plus 1,375,000 common shares issuable on exercise of stock options, which the Beneficial Owner has the right to acquire within 60 days.
- (4) Includes Directly Owned of 4,525,000 shares plus 1,375,000 common shares issuable on exercise of common stock options which the Beneficial Owner has the right to acquire within 60 days. Percentage based on 217,584,867 total shares including 216,209,867 currently outstanding plus 1,375,000 common shares issuable on exercise of stock options, which the Beneficial Owner has the right to acquire within 60 days.
- (5) Includes Directly Owned of 3,091,160 common shares, plus 1,500,000 common shares issuable on exercise of common stock options, which the Beneficial Owner has the right to acquire within 60 days; Percentage calculated based on 217,709,867 total shares including 216,209,867 common shares outstanding plus 1,500,000 common shares issuable on exercise of stock options which the Beneficial Owner has the right to acquire within 60 days.
- (6) Includes Directly Owned of 66,923,285 common shares, plus 9,800,000 common shares issuance on exercise of stock options, which the Beneficial Owner has the right to acquire within 60 days. Percentage calculated based on 226,009,867 total shares including 216,209,867 common shares outstanding plus 9,800,000 common shares issuable on exercise of stock options which the Beneficial Owner has the right to acquire within 60 days

Item 12 - Certain Relationships and Related Transactions.

Transactions with Management and Others

During the fiscal years ended December 31, 2003 and December 31, 2004, transactions occurred with directors and executive officers relating to cash and non-cash compensation which are disclosed in the discussion and footnotes to Item 10 of this Report, Executive Compensation, and Item 11, Security Ownership of Certain Beneficial Owners and Management which are incorporated herein by reference. (See also: Note 5, Notes to Audited Financial Statements.)

As of December 31, 2002, the CEO was owed \$27,532 in Accrued cash advances \$15,000 of which was applied to the exercise price of an outstanding common stock option in 2003. During 2003, the CEO advanced an additional \$3,227 in cash and advances to the Company, of which \$4,186 was repaid during 2003 leaving \$11,573 as of December 31, 2003 unpaid. During 2004, the CEO was repaid \$8,136 leaving a balance of \$3,437.

During the third quarter of 2003 one of the Company's then three directors resigned and 4,000,000 options to purchase common stock granted to him during 2002 and 2003 were cancelled. At the same time, 3,000,000 options granted to another director during 2002 and 2003 were also cancelled.

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Also, during the third quarter of 2003, and 2004, the Company adopted its 2003 and its 2004 Omnibus Stock Option and Incentive Stock Compensation Plans, respectively. These plans contained open and designated grants for members of the board, officers, and consultants. These Plans, including such designated grants have been previously filed as exhibits to the Company's periodic reports and are incorporated herein by reference. Grants under these Plans, exercises of stock options and grants of and purchases under the compensatory stock purchase plans in such Plans, are listed in the Notes to Financial Statements, and incorporated herein by reference.

(See: Note 5, Notes to Financial Statements.)

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Upon engagement of three new outside directors in September of 2003, the Company adopted a special compensation plan under the Company's 2003 Omnibus Plan for the outside directors, providing for quarterly compensation of 125,000 registered shares of common stock and 250,000 common stock options priced at the then market value for the Company's common stock on a quarterly basis for each quarter in which they served as directors of the Company. Compensatory Stock payments and Stock Options under this program have been granted at the beginning of each fiscal quarter, priced at the closing bid for the common stock the last trading date before the date of grant. At the end of the Second Quarter of 2004, this plan was amended to pay 250,000 registered shares of common stock and 500,000 common stock options per quarter. Subsequent to the end of the fiscal year ended December 31, 2004, the Company paid a director an additional 250,000 common shares per quarter for the entire 2004 fiscal year for the first quarter of fiscal year 2005 for services as chairman of the audit committee. Additionally, subsequent to the end of the Fiscal Year ended December 31, 2004, the board adopted a policy to price the compensation shares at 110% the closing price on the last trading date before grant, and the exercise price of Stock Options at 100% of the closing price on such date. (See: Note 5, Notes to Financial Statements.)

The 2003 and 2004 Omnibus Plans are scheduled for shareholder approval at the Company's next regular or a special shareholders meeting to be scheduled.

In April 2002, two officers of the Company cancelled \$344,000 in accrued wages owed by the Company in exchange for the right to receive in the aggregate 12% of the total future stock dividend distribution by the Company from the first four companies that it spins off to its shareholders in a registered stock dividend and/or a registered rights offering. During the first quarter of 2004, the CEO agreed to settle \$232,500 in accrued salary and bonus outstanding for the 2000, 2001 and 2002 fiscal years, and cancel a special 3% dividend preference which he acquired in a prior period for cancellation of \$75,000 in salary accrued in 2002, for issuance of 25,000,000 restricted common shares valued at \$480,000 based on the closing bid for the shares on the date of issuance.

On May 31, 2002, \$160,014 of Notes Payable to an entity owned by the CEO were converted into 16,001 shares of Series 1 Convertible Preferred Stock, and during the first quarter of 2004, such Series 1 Convertible Preferred Shares were converted into 8,000,700 shares of common stock, of which 5,000,000 shares were distributed to adult family members of the CEO for which the CEO disclaims beneficial ownership.

During the Third quarter of 2003, a subscription for Series 2 Preferred Stock in a private placement conducted in prior years, was completed by a related company in the amount of \$100,000. During the fourth quarter of fiscal year 2003, 1,000 shares of Series 2 Preferred were transferred

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to two affiliates of the Company and 800 of those shares were used to purchase 3,000,000 shares of common stock on exercise of certain of their incentive stock options. During the first quarter of 2004, the affiliate of the related company converted 4,050 shares of the Series 2 Preferred to 4,050,000 shares of common stock and distributed them to certain owners of such affiliate of the related company. During the Fourth Quarter of 2004, the related company converted the remaining 15,150 Series 2 Preferred Shares into 15,150,000 common shares, and distributed all its assets including these shares to its remaining owners including the CEO and a director. In this distribution, all 15,150,000 common shares were distributed to an affiliate of the CEO, which distributed certain shares to several adult family members of the CEO of which the CEO disclaims beneficial ownership and certain of these shares were transferred into an affiliate of the CEO; and 3,000,000 common shares were distributed to the other director.

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During the Fourth Quarter of 2004, an officer and director was granted and exercised a compensatory stock option for 1,000,000 shares for \$0.005 per share, or \$5,000. Also during the Fourth Quarter, the CEO agreed to accrue his monthly consulting fees for six months from November, 2004 through April, 2005. Subsequent to the fiscal year ended December 31, 2004, the CEO accepted a promissory note from the Company for 4 months accrued consulting fees in the amount of \$60,000 with simple interest at 8% per annum, due on or after July 1, 2005 plus a grant of 10,000,000 common shares for specified consulting services from March, 2005 through June 30, 2005. The CEO has the right to convert the promissory note plus interest into registered common stock at \$0.01 per share, in the event that the Company does not pay the note in cash after the due date.

In the fourth quarter of the fiscal year ended December 31, 2004, the Company formed a wholly owned subsidiary named Colorado Oil and Gas, Inc., a Colorado corporation for the purpose of acquiring domestic oil and gas properties, in particular producing properties with the potential for drilling additional wells. The Company contemplated that this new subsidiary would be operated by three of the Company's current outside directors, who would act as officers and directors, and would be charged with the daily operations, development of business opportunities, and would upon successfully identifying and contracting with a suitable acquisition candidate, obtain an equity position in such subsidiary, with a view of gaining the Company's assistance in becoming a publicly traded company through a rights offering or dividend spin-off of securities to the Company's shareholders. As of the end of the current fiscal year, certain nominal funds had been advanced by these directors to the subsidiary, several prospects were evaluated and oil and gas engineering consulting services obtained. Subsequent to the end of the current fiscal year, a specific prospect has been identified and negotiations pursued to the point that the parties are engaging in final due diligence and the drafting of formal legal documents. It is anticipated that formal capitalization and other post-incorporation actions will be taken in the very near future in which these directors will purchase equity in the subsidiary, and begin the process of formation and funding of the proposed venture, of which there can be no assurance. The value or the extent of ownership granted to these directors has not been determined at the date of this Report.

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Item 13 - Exhibits

Exhibit No.	Description	Ref. No.
EX-3.1	Restated Articles of Incorporation with Amendments adopted by shareholders on September 1, 1998.	1
EX-3.2	Bylaws adopted by the Board of Directors on October 1, 1998.	1
EX-4.1	Designation of Class A Preferred Stock dated February 26, 2001	1
EX-4.2	Designation of Series 1 Convertible Preferred Adopted November 19, 2001	1
EX-4.3	Designation of Series 2 Convertible Preferred Adopted December 19, 2001.	1
EX-10.1	2003 Omnibus Incentive Stock Compensation Plan Adopted, August 21, 2003	2
EX-10.2	2004 Omnibus Incentive Stock Compensation Plan Adopted, August 4, 2004	3
EX-21	Subsidiaries of the Registrant	4
EX-23	Consents of Experts and Counsel	
EX-23.1	Consent of Causey Demgen & Moore, Inc.	4
EX-23.2	Consent of Ronald R. Chadwick, PC	4
EX-31	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.	4
EX-32	Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	4

Arete Industries, Inc.

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Notes to Exhibits:

1. These documents and related exhibits have been previously filed with the Securities and Exchange Commission, and by this reference are incorporated herein.
2. Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-KSB filed on September 4, 2003.
3. These documents and related exhibits have been previously filed under the Company's periodic reports for periods ended during the fiscal year 12/31/04 and are incorporated herein by reference.

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4. Attached to this report on Form 10-KSB as Exhibits and incorporated herein by reference.

Arete Industries, Inc.

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Item 14. - Principal Accountant Fees and Services.

The following relate to aggregate fees billed for the last two fiscal years by the Company's principal accountants concerning the Company's: (1) audit; (2) for assurance and services reasonably related to the audit; (3) for tax compliance, advice, and planning; and (4) for other fees provided by the principal accountant for the

1. Audit Fees. \$22,194

2. Audit-Related Fees. \$-0- 3. Tax Fees. \$-0- 4. All Other Fees. \$2,910
Reading of the Form S-8, subsequent events procedures and form 8-K.

5. (i) The Company's Audit Committee's pre-approval policies and procedures (described in paragraph (c) (7) (i) of Rule 2-01 of Regulation S-X), are:

Audit Committee Pre-Approval Policies and Procedures

As set forth in its charter, our Audit Committee has the sole authority to pre-approve all audit and non-audit services provided by our independent auditor. All services performed by Causey Demgen & Moore, Inc. in 2003 and Ronald R. Chadwick in 2004 were pre-approved by our Audit Committee. Having considered whether the provision of the auditors' services other than for the annual audit and quarterly reviews is compatible with its independence, the Audit Committee has concluded that it is.

The Audit Committee on an annual basis reviews audit and non-audit services performed by the independent auditors. All audit and non-audit services are pre-approved by the Audit Committee, which considers, among other things, the possible effect of the performance of such services on the auditors' independence. All requests for services to be provided by the independent auditor, which must include a description of the services to be rendered and the amount of corresponding fees, are submitted to the Chief Financial Officer. The Chief Financial Officer authorizes services that have been pre-approved by the Audit Committee. If there is any question as to whether a proposed service fits within a pre-approved service, the Audit Committee chair is consulted for a determination. The Chief Financial Officer submits requests or applications to provide services that have not been pre-approved by the Audit Committee, which must include an affirmation by the Chief Financial Officer and the independent auditor that the request or application is consistent with the SEC's rules on auditor independence, to the Audit Committee (or its chair or any of its other members pursuant to delegated authority) for approval.

(ii) 100 per cent of the fees billed by the principal accountant were approved by the Audit Committee (described in paragraph (c) (7) (i) (C) of Rule 2-01 of Regulation S-X).

6. The percentage (if over 50%) of hours expended on the principal accountant's engagement to audit the Company's financial statements for the most recent fiscal year done by persons other than the principal accountant's full-time, permanent employees, was: Not applicable

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Arete Industries, Inc.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this first amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARETE INDUSTRIES, INC.

Date: April 14, 2004

By: /s/ THOMAS P. RAABE

Thomas P. Raabe,
President, Chief Executive Officer,
acting Chief Financial and Accounting
Officer, and Chairman of the Board
of Directors

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

ARETE INDUSTRIES, INC.

Date: April 14, 2004

By: /s/ THOMAS P. RAABE

Thomas P. Raabe Board Member

Date: April 14, 2004

By: /s/ WILLIAM W. STEWART

William W. Stewart Board Member

Date: April 14, 2004

By: /s/ DONALD W. PROSSER

Donald W. Prosser Board Member

Date: April 14, 2004

By: /s/ CHARLES L. GAMBER

Charles L. Gamber Board Member

Date: April 14, 2004

By: /s/ JOHN R. HERZOG

John R. Herzog Board Member

SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH REPORTS FILED PURSUANT TO SECTION 15(d) OF THE ACT BY REGISTRANTS, WHICH HAVE NOT REGISTERED SECURITIES PURSUANT TO SECTION 12 OF THE ACT

For information forwarded to shareholders of the Company during the period covered by this Report, see the Exhibit Index of this Report. As of the date of this report no annual report for the fiscal year ended December 31, 2004 or proxy material for the 2005 annual shareholders meeting has been sent to security holders. Registrant intends to send proxy information to its security holders for its regular Annual Meeting to be scheduled shortly, but does not intend to send an annual report with such materials. Registrant undertakes to

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forward any annual report or proxy material delivered to securities holders to the Securities and Exchange Commission on the date such information is forwarded to stockholders.

Arete Industries, Inc.

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES

(A Development Stage Entity)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2004

WITH

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

ARETE INDUSTRIES, INC. AND SUBSIDIARIES

(A Development Stage Entity)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Arete Industries, Inc.
Boulder, Colorado

I have audited the accompanying consolidated balance sheet of Arete

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Industries, Inc. and Subsidiaries (a development stage entity) as of December 31, 2004, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year then ended and for the period from inception of the development stage (August 1, 2003) through December 31, 2004. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit. The Company's financial statements as of and for the year ended December 31, 2003, and for the period from inception of the development stage (August 1, 2003) through December 31, 2003 were audited by other auditors whose report, dated April 1, 2004, included an explanatory paragraph describing going concern issues as discussed in Note 1 to the financial statements. The financial statements for the period from inception of the development stage (August 1, 2003) through December 31, 2003 reflect a net loss applicable to common stockholders of \$463,041 of the related total. The other auditors' report has been furnished to me, and in my opinion, insofar as it relates to the amounts for such prior period, is based solely on the report of such other auditors.

I conducted my audit in accordance with the audit standards of the Public Company Accounting Oversight Board (United States). Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arete Industries, Inc. and Subsidiaries at December 31, 2004, and the consolidated results of their operations and their cash flows for the year then ended and for the period from inception of the development stage (August 1, 2003) through December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations, has a working capital deficit and a stockholders' deficit, and is delinquent on the payment of creditor liabilities including payroll taxes. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

April 11, 2005
Aurora, Colorado

/s/ Ronald R. Chadwick, P.C.

RONALD R. CHADWICK, P.C.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Arete Industries, Inc.
Boulder, Colorado

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We have audited the consolidated balance sheet of Arete Industries, Inc. and Subsidiaries (a development stage entity) as of December 31, 2003, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year then ended and for the period from inception of the development stage (August 1, 2003) through December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arete Industries, Inc. and Subsidiaries at December 31, 2003, and the consolidated results of their operations and their cash flows for the year then ended and for the period from inception of the development stage (August 1, 2003) through December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations, has a working capital deficit and a stockholders' deficit, and is delinquent on the payment of creditor liabilities including payroll taxes. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Denver, Colorado
April 1, 2004

/s/ CAUSEY DEMGEN & MOORE INC.

CAUSEY DEMGEN & MOORE INC.

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
(A Development Stage Entity)
CONSOLIDATED BALANCE SHEET
December 31, 2003 and 2004

ASSETS

	2003	2004
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 25,345	\$ 121
Accrued interest receivable	37,761	--

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Inventory and molds held for disposal (Note 1)	25,243	--
Prepaid expenses	--	3,000
	-----	-----
Total current assets	88,349	3,121
Furniture and equipment, at cost net of accumulated depreciation of \$13,511(2003) and \$19,672 (2004)	1,089	3,969
	\$ 89,438	\$ 7,090
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable (Note 2)	\$ 288,059	\$ 262,019
Accrued expenses	585,478	368,508
Accrued payroll taxes (Note 2)	289,363	289,363
Settlement due	18,650	18,650
Notes payable - related parties (Note 3)	11,573	3,437
	-----	-----
Total current liabilities	1,193,123	941,977
Commitments and contingencies (Notes 1, 2,3,7 and 8)		
Stockholders' deficit (Notes 4 and 5):		
Convertible Class A preferred stock; \$10 face value, 1,000,000 shares authorized:		
Series 1, 30,000 shares authorized, 16,001 (2003) and 0 (2004) shares issued and outstanding	160,014	--
Series 2, 25,000 shares authorized, 19,200 (2003) and 0 (2004) shares issued and outstanding	192,000	--
Common stock, no par value; 499,000,000 shares authorized, 82,592,626 (2003) and 183,045,768 (2004) shares issued and outstanding	10,383,703	11,811,498
Accumulated deficit (including \$1,309,891 accumulated during the development stage)	(11,600,582)	(12,523,565)
Notes receivable from sale of stock	(238,820)	(222,820)
	-----	-----
Total stockholders' deficit	(1,103,685)	(934,887)
	-----	-----
	\$ 89,438	\$ 7,090
	=====	=====

See accompanying notes

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
(A Development Stage Entity)
CONSOLIDATED STATEMENT OF OPERATIONS
For the years ended December 31, 2003 and 2004
and from inception (August 1, 2003) to December 31, 2004

	2003	2004
	-----	-----
Operating expenses:		
Depreciation	\$ 384	\$ 2,19
Rent	9,203	13,37

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Other operating expenses	448,094	933,04
	-----	-----
Total operating expenses	457,681	948,61
	-----	-----
Total operating loss	(457,681)	(948,61
Other income (expense):		
Loss on Sale of Investments		- (10,50
Interest expense	(18,489)	(17,92
Interest and miscellaneous income	13,129	--
	-----	-----
Total other income (expense)	(5,360)	(17,92
	-----	-----
Net loss from continuing operations	(463,041)	(977,03
Net loss from discontinued operations (including loss on disposal of \$108,673 in 2003) (Note 1)	(383,374)	--
Extingusihment of Debt (Note 2)	123,141	54,05
	-----	-----
Net loss (Note 6)	\$ (723,274)	\$ (922,98
	=====	=====
Basic and diluted loss per share from continuing operations	\$ (0.01)	\$ (0.0
	=====	=====
Basic and diluted loss per share	\$ (0.01)	\$ (0.0
	=====	=====
Weighted average common shares outstanding	52,600,000	144,760,00
	=====	=====

See accompanying notes.

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
(A Development Stage Entity)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
For the years ended December 31, 2003 and 2004

	Series 1 preferred stock		Series 2 preferred stock		Com
	Shares	Amount	Shares	Amount	Shares
	-----	-----	-----	-----	-----
Balance, December 31, 2002	16,001	\$160,014	18,542	\$185,425	34,399,
Issuance of Series 2 preferred stock to reimburse advances made to the Company (Note 3)	--	--	1,458	14,575	--
Exercise of stock options upon conversion of Series 2 preferred stock (Note 4)	--	--	(800)	(8,000)	3,000,
Exercise of stock options (Note 5)	--	--	--	--	6,750,
Issuance of common stock to employees and consultants for services (Note 5)	--	--	--	--	37,443,

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Purchase of stock by directors in connection with granted purchase rights	--	--	--	--	1,000,
Value of stock options granted to consultants (Note 5)	--	--	--	--	--
Net loss for the year ended December 31, 2003	--	--	--	--	--
Balance, December 31, 2003	16,001	\$160,014	19,200	\$192,000	82,592,

See accompanying notes

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
(A Development Stage Entity)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
For the years ended December 31, 2003 and 2004
(Continued from preceding page)

*** (SPLIT TABLE - SEE BELOW) ***

	Series 1 preferred stock		Series 2 preferred stock	
	Shares	Amount	Shares	Amount
	-----	-----	-----	-----
Balance, December 31, 2003	16,001	\$ 160,014	19,200	\$ 192,000
Exercise of stock options upon conversion of Series 1 preferred stock (Note 3)	-- (16,001)	-- (160,014)	--	--
Exercise of stock options upon conversion of Series 2 preferred stock (Note 4)	--	--	(19,200)	(192,000)
Issuance of common stock to repurchase a portion of a future interest in stock distributions, payment of accrued wages and for services (NOTE 5)	--	--	--	--
Exercise of stock options (NOTE 5)	--	--	--	--
Issuance of common stock to employees and consultants for services (Note 5)	--	--	--	--
Purchase of stock by directors in connection with granted purchase rights	--	--	--	--
Value of stock options granted to consultants (Note 5)	--	--	--	--
Net loss for the year ended				

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December 31, 2004	--	--	--	--
	-----	-----	-----	-----
Balance, December 31, 2004	--	\$ --	--	\$ --
	=====	=====	=====	=====

*** SPLIT TABLE - SEE ABOVE) ***

	Common stock Shares	Amount	Accumulated deficit
	-----	-----	-----
Balance, December 31, 2003	82,592,626	\$ 10,383,703	\$(11,600,582)
Exercise of stock options upon conversion of Series 1 preferred stock (Note 3)	8,000,700	160,014	
Exercise of stock options upon conversion of Series 2 preferred stock (Note 4)	19,200,000	192,000	--
Issuance of common stock to repurchase a portion of a future interest in stock distributions, payment of accrued wages and for services (NOTE 5)	25,000,000	405,000	--
Exercise of stock options (NOTE 5)	6,000,000	79,000	--
Issuance of common stock to employees and consultants for services (Note 5)	42,002,442	568,423	--
Purchase of stock by directors in connection with granted purchase rigts	250,000	2,500	--
Value of stock options granted to consultants (Note 5)	--	20,858	--
Net loss for the year ended December 31, 2004	--	--	(922,983)
	-----	-----	-----
Balance, December 31, 2004	183,045,768	\$ 11,811,498	\$(12,523,565)
	=====	=====	=====

See accompanying notes

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
(A Development Stage Entity)
CONSOLIDATED STATEMENT OF CASH FLOWS

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For the years ended December 31, 2003 and 2004
and from inception (August 1, 2003) to December 31, 2004

	2003	2004	Inception to December 31, 2004
	-----	-----	-----
Cash flows from operating activities:			
Net loss	\$ (723,274)	\$ (922,983)	\$ (1,386,024)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	19,509	2,192	2,576
Stock and options issued for services and interest on notes	669,366	762,031	1,202,092
Write down of assets included in loss from discontinued operations	108,673	--	--
Changes in assets and liabilities:			
Interest receivable	(13,129)	37,761	44,325
Inventory	(4,941)	25,243	25,243
Prepaid expenses	2,285	(3,000)	(3,000)
Accounts payable	(134,638)	(26,040)	(53,251)
Accrued expenses	8,747	(216,970)	(208,390)
	-----	-----	-----
Total adjustments	655,872	581,217	1,009,595
	-----	-----	-----
Net cash used in operating activities	(67,402)	(341,766)	(376,429)
Cash flows from investing activities:			
Purchase of property and equipment	--	(5,072)	(5,072)
	-----	-----	-----
Net cash used in investing activities	--	(5,072)	(5,072)
Cash flows from financing activities:			
Proceeds from issuance of preferred stock	14,575	--	6,713
Proceeds from issuance of common stock	10,000	--	10,000
Proceeds from exercise of stock options	83,750	81,500	125,250
Note Receivable from sale of stock	--	16,000	16,000
Payment of accrued wages	--	232,250	232,250
Payment of note payable - related parties	(15,959)	(8,136)	(8,709)
	-----	-----	-----
Net cash provided by financing activities	92,366	321,614	381,504
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	24,964	(25,224)	3
Cash and cash equivalents at beginning of period	381	25,345	118
	-----	-----	-----
Cash and cash equivalents at end of period	\$ 25,345	\$ 121	\$ 121
	=====	=====	=====

See accompanying notes

(Continued on following page)

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
 (A Development Stage Entity)
 CONSOLIDATED STATEMENT OF CASH FLOWS
 For the years ended December 31, 2003 and 2004
 and from inception (August 1, 2003) to December 31, 2004

(Continued from preceding page)

Supplemental disclosure of cash flow information:	2003	2004	Inception to December 31, 2004
	-----	-----	-----
Interest paid during the period	\$ -	\$ -	\$ -
Income taxes paid during the period	\$ -	\$ -	\$ -

Supplemental disclosure of non-cash investing and financing activities

During the year ended December 31, 2003, 800 shares of Series 2 preferred stock were used to exercise common stock options for the purchase of 3,000,000 common shares. In addition wages to officers and directors and fees to consultants of \$637,719 were paid by the issuance of common stock and the value assigned to stock options issued was \$31,647.

During the year ended December 31, 2003, a consultant exercised common stock options for a note receivable of \$20,000.

During the year ended December 31, 2004, 15,150 shares of Series 2 preferred stock were converted into 15,150,000 common shares and 16,001 shares were converted into 8,000,700 common shares.

In addition wages to officers and directors and fees to consultants of \$562,861 were paid by the issuance of common stock and the value assigned to stock options issued was \$26,420.

See accompanying notes

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
 (A Development Stage Entity)
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2003 and 2004

1. Summary of significant accounting policies

Nature of business:

Arete Industries, Inc. (Arete), formerly Travis Industries, Inc., a Colorado corporation was incorporated on July 21, 1987. One of Arete's subsidiaries, Global Direct Marketing, Inc. (Global) was in the business of printing advertising materials and coupons and mailing them for its customers. The other Arete subsidiary, Aggression Sports, Inc. (Aggression

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Sports) was an outdoors sports products company which became a consolidated subsidiary through Arete's increased investment, effective October 1, 2001. 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 in October 1998. Certain assets and liabilities of Arete were contributed to Global. The consolidated financial statements of the Company include the accounts of Arete for the entire period, the accounts of Global since inception, and Aggression Sports 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.

On August 1, 2003, the Company discontinued operations as a business development company focused on certain bond and other funding vehicles for growth stage companies. The Company has embarked on an entirely new business focusing on acquiring interests in traditional oil and gas ventures as well as development of alternative and renewable energy projects. In the oil and gas field, the Company is looking for conservation oriented projects that offer high profit, low risk projects including overlooked and by-passed reserves of natural gas, which will include shut-in and in-field development, stripper wells, re-completion and re-working projects. The Company is interested in combining traditional oil and gas investments with projects that advance and exploit the use of alternative and renewable energy including bio-mass, co-generation, solar, wind, municipal and organic waste conversion to bio-fuels, and alternative electrical energy feed stocks. The Company will seek to make investments for direct participations in the revenue streams from such projects on a project finance basis, as well as through acquisition of management, capital, and assets by one or more acquisitions of going concerns. Also under consideration is creation and operation of one or more investment funds to engage in energy related and socially responsible investments.

Discontinued operations:

During March 2000, the Company abandoned the direct mail and coupon business. At December 31, 2004, the remaining liabilities of this division were \$58,230 in unpaid payroll taxes. For the years ended December 31, 2003 and December 31, 2004, \$123,141 and \$54,054, respectively, of debt were reclassified as extinguished. During 2003, the Company abandoned the development of Aggression Sports Inc., a subsidiary. At December 31, 2004, the remaining liabilities of this division were \$91,077 in trade payables and \$79,351 in unpaid payroll taxes.

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
(A Development Stage Entity)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2004

1. Summary of significant accounting policies (continued)

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 requires that it take the decisive step to formally discontinue its former operations. This decision is reflected by a change in the presentation of the Company's financial

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statements to segregate discontinued operating results in previous periods from continuing operations going forward. The effect in 2003 of this recasting and reclassification is a loss of \$383,374 from discontinued operations including a write down of inventory and fixed assets held for disposal from discontinued operations of \$108,673. Following the end of the fiscal year ended December 31, 2004, 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.

Basis of presentation:

The 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. The Company has incurred significant losses and at December 31, 2004, the Company has a working capital deficit of \$938,856 and a stockholders' deficit of \$934,887. 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.

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
(A Development Stage Entity)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2004

1. Summary of significant accounting policies (continued)

Recent accounting pronouncements:

In November 2002, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that a liability be recorded for the fair value of the obligation in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires certain disclosures about each of the entity's guarantees. The disclosure provisions of FIN 45

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are effective for annual and interim periods that end after December 15, 2002. The recognition provisions of FIN45 are applicable prospectively to guarantees entered after December 31, 2002. The adoption of FIN 45 effective January 1, 2003 did not have a material effect on the Company's results of operations or financial position.

In May 2003, the FASB issued Statement of Financial Accounting standards No. 150. "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS N. 150). This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for the first interim period beginning after June 15, 2003, with certain exceptions. The adoption of SFAS No. 150, effective July 1, 2003, did not have a material effect on the Company's results of operations or financial position.

In September 2003, the FASB approved SFAS No. 150, Accounting For Certain Financial Instruments With Characteristics Of Both Liabilities And Equity ("SFAS No. 150"). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after September 15, 2003. The effect on the Company's financial position include the fact that beginning on July 1, 2003, redeemable warrants will be classified as liabilities and not shown in the mezzanine equity section of the balance sheet.

In December 2004, the FASB revised SFAS No. 123, Share-Based Payment ("SFAS No. 123R"). SFAS No. 123R is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period in which an employee is required to provide service in exchange for the award. SFAS No. 123R requires a public entity to initially measure the cost of employee services rendered in exchange for an award of liability instruments at its current fair value. The fair value of that award is to be remeasured subsequently at each reporting date through the settlement date. Changes in the fair value during the required service period are to be recognized as an increase or decrease in the amount of compensation cost recognized during the period. We are

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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1. Summary of significant accounting policies (continued)

currently in the process of evaluating different option pricing models and the impact of SFAS No. 123R on our consolidated financial statements. We will adopt SFAS No. 123R on July 1, 2005.

In December 2004, the FASB issued FASB Staff Position No. 109-1 ("FSP

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109-1"), Application of FASB Statement No. 109, "Accounting for Income Taxes" ("SFAS No. 109") to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004, which provides guidance on the recently enacted American Jobs Creation Act of 2004 (the "Act"). The Act provides a tax deduction for income from qualified domestic production activities. FSP 109-1 provides for the treatment of the deduction as a special deduction as described in SFAS No. 109. As such, the deduction will have no effect on existing deferred tax assets and liabilities. The impact of the deduction is to be reported in the period in which the deduction is claimed on our U.S. tax return. We do not expect that this deduction will have a material impact on our effective tax rate in future years. FSP 109-1 is effective prospectively as of January 1, 2005.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Depreciation:

Furniture and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful life of three to five years using the straight-line and accelerated methods.

Advertising costs:

The Company expenses the costs of advertising as incurred. Advertising costs amount to \$0 and \$0 for the years ended December 31, 2003 and 2004 respectively.

Inventories:

Inventories are stated at the lower of cost (first-in, first-out method) or market. Inventories consist primarily of parts for snowshoes and the downhill gravity scooter. During 2003, the Company wrote off all fixed assets and revalued inventory at fair market value listed as inventory and molds held for disposal. This revalued inventory was written off as of December 31, 2004.

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2004

1. Summary of significant accounting policies (continued)

Intangible assets:

Intellectual property will be amortized over their estimated lives of 15 years. All Intellectual property has been written off in 2003 with the discontinuation of the business.

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Income taxes:

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109 ("FASB No. 109"). Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. The Company's temporary differences consist primarily of tax operating loss carry forwards and start-up costs capitalized for tax purposes.

Fair value of financial instruments:

Cash, accounts payable, accrued liabilities and notes payable are carried in the financial statements in amounts which approximate fair value because of the short-term maturity of these instruments.

Cash and cash equivalents:

For purposes of the statement of cash flows, the Company considers cash and all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Concentrations of credit risk:

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash. The Company places its cash with high quality financial institutions.

Net loss per share:

Basic net loss per common share is based on the weighted average number of shares outstanding during each period presented. Options to purchase stock are included as common stock equivalents when dilutive.

2. Delinquent amounts payable

As of December 31, 2003 and 2004, 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.

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
(A Development Stage Entity)
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December 31, 2003 and 2004

3. Notes payable

Notes payable - individuals:

On May 31, 2002, the Board of Directors approved two assignment agreements between third party creditors of the Company holding secured promissory notes in the aggregate amount of \$100,000 and a company owned by a director. The agreements provided for the purchase of the referenced notes

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and collateral consisting of 500,000 common shares and a security interest in certain inventory of the Company's subsidiary, Aggression Sports, Inc. and the subsequent surrender for cancellation of such notes by the related company with the Company for 10,000 shares of Series 2 Convertible Preferred Stock of the Company (convertible into 500,000 shares of common stock). The assignments were finalized upon the closing of a private placement by the related company during September 2002 and were credited toward the related company's \$200,000 subscription for Series 2 Preferred in the amount of \$100,000. The related company completed the other \$100,000 of its subscription to purchase the Series 2 Preferred Stock in several payments made between the first quarter of 2002 through August of 2003. During the fourth quarter of fiscal year 2003, 1,000 shares of Series 2 Preferred were transferred to two officers of the Company and 800 of those shares were used by the two officers to pay the exercise price for 3,000,000 incentive stock options.

Notes payable - related parties:

As of January 1, 2003, the CEO was owed \$27,532 in accrued cash advances, \$15,000 of which was applied to the exercise price of an outstanding common stock option in 2003. During 2003, the CEO advanced an additional \$3,227 in cash and advances to the Company, of which \$4,186 was repaid during 2003 leaving \$11,573 unpaid as of December 31, 2003. During 2004, the CEO was repaid \$8,136 leaving a balance of \$3,437.

4. Preferred stock

The Company has designated Class A Convertible Preferred Stock and 1,000,000 shares authorized for issuance. The Class A preferred stock has a cumulative dividend at prime rate and is redeemable for cash at the rate of \$10 per share plus accrued but unpaid dividends at the option of the Company. Each of the Class A preferred shares is convertible at any time after thirty days from issuance at face value and convertible into an equal amount of common stock at 100% of the average weekly closing bid price of the common stock. The Class A shares have certain voting rights and other rights and preferences as specified in the amended articles of incorporation of the Company. The Company intends to use Class A preferred stock for special funding situations and possibly as consideration for unpaid officers' compensation.

On November 19, 2001, the board of directors designated a new series of Class A Preferred Stock as the Series 1 Convertible Preferred Stock. The Series 1 Convertible Preferred Stock is limited to 30,000 shares with a face value of \$10 per share. The redemption price and liquidation preference for each share is \$10 per share. As of December 31, 2004, all previously issued shares of this Series 1 have been converted to Common Stock and retired. The Company has no present intention to re-issue any shares of this Series 1 Preferred Stock.

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On December 19, 2001, the board of directors designated a new series of Class A Preferred Stock as the Series 2 Convertible Preferred Stock. The Series 2 Convertible Preferred Stock is limited to 25,000 shares with a

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face value of \$10 per share. The redemption price and liquidation preference for each share is \$10 per share. As of December 31, 2004, all previously issued shares of this Series 2 have been converted to Common Stock and retired. The Company has no present intention to re-issue any shares of this Series 2 Preferred Stock.

On January 10, 2004, an affiliate of the CEO, converted 16,001 shares of Series 1 Class A Preferred Stock into 8,000,700 shares of common stock.

As of December 31, 2003, the Company received total proceeds of \$200,000 for the purchase of 20,000 shares of Series 2 Convertible Preferred Stock. 10,000 of these preferred shares were issued in connection with a note conversion. In November of 2003, 800 of these Series 2 Preferred shares were used by two related parties as the purchase price for the exercise of stock options for 3,000,000 shares of common stock. In the first quarter of 2004, 4,050 of these Preferred Shares were converted into 4,050,000 shares of common stock and distributed by an affiliated entity to unrelated parties. During the fourth quarter of 2004, 15,150 of these Preferred Shares were converted by this affiliated entity into 15,150,000 shares of common stock and distributed to certain parties and family members related to the CEO.

5. Common stock

Stock issuances:

During the years ended December 31, 2003 and 2004, 37,443,045 and 67,002,442 shares of the Company's common stock, respectively, were issued to officers, directors and consultants for services. Of the total common shares issued in fiscal years ended December 31, 2003 and December 31, 2004, 18,750,000 and 12,250,000 shares of common stock were issued to consultants in connection with developing the Company's new business in the traditional, alternative, and renewable energy sector; 7,700,000 and 700,000 shares of common stock were issued to consultants for corporate communications support, 9,625,000 and 26,141,947 shares of common stock were issued to officers, directors and consultants for compensation and on exercise of stock options, including 25,000,000 shares as settlement of accrued wages; and 1,368,045 and 8,910,495 shares of common stock were issued for professional services, respectively.

By a settlement agreement approved by the board of directors on March 17, 2004, the CEO converted \$232,250 in accrued wages, cancelled his right to receive 3% of total future stock dividends for \$75,000, and received compensation of \$172,750 for the above mentioned 25,000,000 shares of unregistered common stock valued at \$405,000.

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
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5. Common stock (continued)

Stock options:

Stock Option Plans

The Company has established the Omnibus Stock Option and Compensation Plans

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for employees, directors and consultants or other advisors for 2003 and 2004. The Company has reserved a maximum of 40,000,000 and 50,000,000 common shares under the 2003 and 2004 Plans, respectively, including 10,000,000 special incentive common stock purchase rights to officers, directors, employees and consultants. Additionally, the 2004 Plan replaced a total of 8,500,000 stock options granted under the Company's 2002 and 2003 Plans into the 2004 Plan. The purchase price of each share of stock under the stock option plan will be determined by the Board of Directors or the Compensation Committee based on the fair market value as of the date of grant, determined by the closing sales price on the OTC Bulletin board on the last trading date before the date of grant. The stock option plans exercise terms do not exceed ten years. As of December 31, 2004, no shares were available under the 2003 Plan and all 50,000,000 shares were available under the 2004 Plan for issuance, with 12,500,000 outstanding stock options, leaving 37,500,000 shares unallocated.

During the second quarter of 2004, the Company established a Special Stock Compensation Plan with 25,000,000 shares designated under such plan for issuance to employees, consultants, advisors, professionals, officers and directors. As of December 31, 2004, with 18,309,252 shares issued during 2004 and with 2,000,000 outstanding stock options against this plan, 4,690,748 shares were available under this Plan for issuance.

During the year ended December 31, 2003, the board of directors granted stock options to officers and directors for: (i) 3,000,000 shares of common stock, exercisable at \$.0165 per share for two years of which 2,000,000 were cancelled during 2003 and 1,000,000 expired in the first quarter of 2005; (ii) 3,000,000 shares of common stock, exercisable at \$.0155 for 2 years of which 1,000,000 were cancelled during 2003, 1,000,000 was exercised in 2004 and 1,000,000 expired in the first quarter of 2005; (iii) 7,000,000 shares of common stock, exercisable at \$.01 per share for two years of which 2,000,000 were cancelled during 2003; (iv) 750,000 shares of common stock exercisable at \$.011 per share for one year; and (v) 1,000,000 shares of common stock exercisable at \$.022 for six months which vested in 2004.

During the year ended December 31, 2003, the board of directors granted a stock option for the purchase of 4,000,000 shares of common stock to a consultant. The option was exercisable at \$.015 per share for two years and was valued at \$31,627 and was exercised during the first quarter of 2004 for \$60,000.

During the year ended December 31, 2003, stock options for the purchase of 2,000,000 shares issued to a director in the year 2001 were cancelled, and 2,000,000 options granted in 2001 and 53,075 options granted in 1999 expired. A total of 9,750,000 stock options were exercised during 2003 for proceeds of \$111,750.

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
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5. Common stock (continued)

During the current fiscal year ended December 31, 2004, the board of directors granted stock options to officers and directors to purchase 7,500,000 common shares for an aggregate exercise price of \$84,000, of

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which 2,500,000 stock options were exercised resulting in proceeds to the Company of \$22,000. Additionally, during the fourth quarter 250,000 special compensation shares were purchased by a director for consideration to the Company of \$2,500.

Also, during the first quarter of 2004, the Company granted four unrelated individuals incentive stock options to purchase 3,000,000 shares each at an aggregate purchase price of \$320,000 and the Company recorded \$22,248 in compensation expense. During the second quarter of 2004, 3,000,000 of these stock options were cancelled resulting in an adjustment to compensation of (\$5,542) and during the period ended September 30, 2004, 9,000,000 of these stock options expired.

The following is a summary of stock option activity, all of which are currently exercisable:

	Option price per share	Average exercise price	Weighted Number of shares
	-----	-----	-----
Balance, December 31, 2002	\$.02 to \$.22	\$.031	10,578,075
Granted	\$.01 to .022	\$.0137	18,750,000
Expired	\$.02 to .20	\$.0025	(2,053,075)
Cancelled	\$.0155 to \$.02	\$.0183	(7,000,000)
Exercised	\$.01 to \$.02	\$.011	(9,750,000)
	-----	-----	-----
Balance, December 31, 2003	\$.01 to \$.22	\$.014	10,525,000
Granted	\$.006 to \$.03	\$0.0194	20,500,000
Expired	\$.02 to \$.03	\$0.0267	(9,000,000)
Cancelled	\$.02 to \$.03	\$0.0267	(3,000,000)
Exercised	\$.022 to \$.005	\$0.0150	(6,000,000)
	-----	-----	-----
Balance, December 31, 2004	\$.006 to \$.22	\$ 0.023	13,025,000

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5. Common stock (continued)

The following is additional information with respect to those options outstanding at December 31, 2004:

Option price per share	Weighted average contractual life in years	Weighted average exercise price	Number of shares
-----	-----	-----	-----

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\$0.0155 to \$0.0165	0.25	\$0.0160	2,000,000
\$0.075 to \$0.01	0.67	\$0.0150	5,000,000
\$0.0220	1	\$0.0220	500,000
\$0.0200	1.25	\$0.0200	1,000,000
\$0.0110	1.5	\$0.0110	2,000,000
\$0.0060	1.75	\$0.0060	2,000,000
\$0.2200	5	\$0.2200	525,000

As of December 31, 2004, 123,622 options to purchase common stock outstanding under the 2002 stock option plan and 525,000 stock options that expire in 2009, were outstanding under previous plans.

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 periods ended December 31, 2003 and 2004 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:

	2003 ----	2004 ----
Net loss - as reported	\$ (723,274)	\$ (922,983)
Net loss - pro forma	(817,548)	(1,048,460)
Loss per share - as reported	(0.01)	(0.01)
Loss per share - pro forma	(0.02)	(0.01)

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 2003 and 2004, dividend yield of 0%; expected volatility of 100%, risk-free interest rate of 1.23% and 1.05%; and expected life of 1 and 2 years. The weighted average grant date fair value of options was \$.013 for 2003 and \$0.023 for 2004.

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
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6. Income taxes

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

As of December 31, 2003 and 2004, total deferred tax assets; liabilities and valuation allowances are as follows:

	2003 -----	2004 -----
Deferred tax asset resulting from loss carryforward	\$1,851,000	\$2,139,000
Deferred tax asset resulting from future deductions	192,000	192,000
Valuation allowance	(2,043,000)	(2,331,000)

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Net deferred tax asset	\$	--	\$	--
	=====		=====	

A 100% valuation allowance has been established against the deferred tax assets, as utilization of the loss carry forwards 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. The Company's net operating loss carry forwards expire as follows:

December 31, 2015	\$ 458,000
2016	224,000
2017	304,000
2018	835,000
2019	161,000
2020	1,055,000
2021	880,000
2022	353,000
2023	692,000
2024	805,000

	\$5,767,000

7. Commitments and contingencies

Lease commitments:

The Company entered into a month-to-month building lease for office space in Niwot, Colorado. Rent expense for the years ended December 31, 2003 and December 31, 2004 amounted to \$16,546 and \$13,375 respectively.

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. Subsequent events

Following the end of the fiscal year ended December 31, 2004, as of April 11, 2005, the Company issued a total of 24,899,864 common shares for compensation of officers, directors and consultants, valued at an aggregate of \$ 116,692, and issued 10,264,236 shares on exercise of compensatory stock options and compensatory stock purchase rights for proceeds to the Company of \$ 45,927. The Company made new grants of stock options of 10,000,000 common shares to certain officers and directors exercisable for up to \$ 50,000 of which 7,000,000 were exercised in the same period.

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

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 registered common shares at \$0.006 per common share. In addition, in consideration for the payment of 10,000,000 registered common shares, representing compensation through July

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1, 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, in the first quarter of 2005, the Company terminated its pending agreements with an oil and gas developer to acquire and fund development of certain prospects in Texas and Oklahoma after its investment banking consulting firm withdrew its interest in funding the prospects. Immediately thereafter, the Company was introduced to an opportunity to acquire a small number of producing wells in Colorado that had several new wells and re-working opportunities in the same field. The Company has authorized three of its directors to pursue negotiations and perform due diligence with the intent that the prospect, if it provides viable, will be acquired into the Company's subsidiary, Colorado Oil and Gas, Inc. Should this project prove viable after full investigation, it is the Company's intent to complete capitalization of the Subsidiary including selling an equity interest in the Subsidiary to the three directors, who will manage the subsidiary and oversee funding and execution of the prospect, after which time, 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 of these 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. As of the date of this report, the Company has not signed an agreement to purchase the prospect although the basic terms and form of purchase agreement have been negotiated. The subsidiary company must successfully raise an amount of debt and equity capital to acquire the prospect, which is subject to a fairly rigorous time line, and there remains other details of the total agreement yet to be worked out. Therefore, this prospect and opportunity at this time, has not been fully evaluated, and there are no firm commitments from bankers or investors to fund the purchase of the property as well as the drilling and development costs.

On April 2, 2005, the CEO purchased 594,235 special compensation shares with cancellation of a note payable for \$2,377.