

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

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

FORM 10-QSB

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

For the period ended: June 30, 2003

or

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

For the transition period from _____ to _____

Commission File Number 33-16820-D

ARETE INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

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

<u>7102 La Vista Place, Suite 100, Niwot, CO</u>	<u>80503</u>
(Address of principal executive offices)	(Zip Code)

(303) 652-3113
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former
fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of August 14, 2003, Registrant had 57,599,581 shares of common stock, No par value, outstanding.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES

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ARETE INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 2002 and March 31, 2003
(Unaudited)

	<u>2002</u>	<u>2003</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 381	\$ 89
Accrued interest receivable	24,632	31,197
Inventory	20,302	20,302
Prepaid expenses	<u>2,285</u>	<u>275</u>
Total current assets	47,600	51,863
Furniture and equipment, at cost net of accumulated depreciation of \$74,309 (2002) and \$88,422 (2003)	97,056	82,943
Intellectual property	<u>32,215</u>	<u>31,065</u>
	<u>\$ 176,871</u>	<u>\$ 165,871</u>
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Current liabilities:		
Accounts payable (Note 2)	\$ 422,697	429,884
Accrued expenses	576,333	576,898
Accrued payroll taxes (Note 2)	289,761	289,761
Settlement due	18,650	18,650
Notes payable - related parties	<u>27,532</u>	<u>10,268</u>
Total current liabilities	1,334,973	1,325,461
Commitments and contingencies (Notes 1 and 2)		
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 shares issued and outstanding	160,014	160,014
Series 2, 25,000 shares authorized, 18,542 (2002) and 19,329 (2003) shares issued and outstanding	185,425	193,287
Common stock, no par value; 499,000,000 shares authorized, 34,399,581 (2002) and 47,599,581 (2003) shares issued and outstanding	9,592,587	9,833,082
Accumulated deficit	(10,877,308)	(11,127,153)
Notes receivable from sale of stock	<u>(218,820)</u>	<u>(218,820)</u>
Total stockholders' deficit	<u>(1,158,102)</u>	<u>(1,159,590)</u>
	<u>\$ 176,871</u>	<u>\$ 165,871</u>

ARETE INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
For the three months ended June 30, 2002 and 2003
(Unaudited)

	<u>2002</u>	<u>2003</u>
Revenues:		
Sales	\$ <u> -</u>	\$ <u> -</u>
Total revenues	-	-
Operating expenses:		
Depreciation	8,101	6,598
Rent	6,464	4,259
Other operating expenses	<u>78,079</u>	<u>88,320</u>
Total operating expenses	<u>92,644</u>	<u>99,177</u>
Total operating loss	(92,644)	(99,177)
Other income (expense):		
Interest expense	(573)	(4,334)
Interest and miscellaneous income	<u>3,328</u>	<u>3,282</u>
Total other income (expense)	<u>2,755</u>	<u>(1,052)</u>
Net loss (Note 3)	<u>\$ (89,889)</u>	<u>\$ (100,229)</u>
Basic and diluted loss per share	<u> *</u>	<u> *</u>
Weighted average common shares outstanding	<u>24,416,000</u>	<u>46,545,000</u>

*-Less than \$.01 per share

ARETE INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
For the six months ended June 30, 2002 and 2003
(Unaudited)

	<u>2002</u>	<u>2003</u>
Revenues:		
Sales	\$ <u>379</u>	\$ <u>-</u>
Total revenues	379	-
Operating expenses:		
Depreciation	16,203	14,113
Rent	16,268	6,343
Other operating expenses	<u>109,804</u>	<u>226,628</u>
Total operating expenses	<u>142,275</u>	<u>247,084</u>
Total operating loss	(141,896)	(247,084)
Other income (expense):		
Interest expense	(4,869)	(9,326)
Interest and miscellaneous income	<u>6,556</u>	<u>6,565</u>
Total other income (expense)	<u>1,687</u>	<u>(2,761)</u>
Net loss (Note 3)	<u>\$ (140,209)</u>	<u>\$ (249,845)</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average common shares outstanding	<u>24,416,000</u>	<u>42,720,000</u>

ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
For the six months ended June 30, 2003
(Unaudited)

	<u>Series 1 preferred stock</u>		<u>Series 2 preferred stock</u>		<u>Common stock</u>		<u>Accumulated deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	
Balance, December 31, 2002	16,001	\$ 160,014	18,542	\$ 185,425	34,399,581	\$ 9,592,587	\$ (10,877,308)
Issuance of Series 2 preferred stock to reimburse advances made to the Company (Note 4)	-	-	787	7,862	-	-	-
Exercise of Stock Options	-	-	-	-	2,000,000	40,000	-
Issuance of common stock to employees and consultants for services (Note 4)	-	-	-	-	11,200,000	183,758	-
Value of stock options granted to consultants (Note 4)	-	-	-	-	-	16,737	-
Net loss for the six months ended June 30, 2003	-	-	-	-	-	-	(249,845)
Balance, June 30, 2003	<u>16,001</u>	<u>\$ 160,014</u>	<u>19,329</u>	<u>\$ 193,287</u>	<u>47,599,581</u>	<u>\$ 9,833,082</u>	<u>\$ (11,127,153)</u>

ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENT OF CASH FLOWS****For the six months ended June 30, 2002 and 2003****(Unaudited)**

	<u>2002</u>	<u>2003</u>
Cash flows from operating activities:		
Net loss	\$ (140,209)	\$ (249,845)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	16,203	15,263
Stock issued and options granted for services	-	200,495
Changes in assets and liabilities:		
Interest receivable	(6,555)	(6,565)
Prepaid expenses	(2,583)	2,010
Accounts payable	4,021	7,187
Accrued expenses	<u>89,893</u>	<u>565</u>
Total adjustments	<u>100,979</u>	<u>218,955</u>
Net cash used in operating activities	(39,230)	(30,890)
Cash flows from investing activities:		
Security deposit	<u>616</u>	<u>-</u>
Net cash provided by investing activities	616	-
Cash flows from financing activities:		
Proceeds from issuance of preferred stock	38,947	7,862
Proceeds from exercise of stock options	-	40,000
Payment of note payable - related parties	<u>-</u>	<u>(17,264)</u>
Net cash provided by financing activities	<u>38,947</u>	<u>30,598</u>
Net increase (decrease) in cash and cash equivalents	333	(292)
Cash and cash equivalents at beginning of period	<u>110</u>	<u>381</u>
Cash and cash equivalents at end of period	<u>\$ 443</u>	<u>\$ 89</u>

ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2003

1. Summary of significant accounting policies

Basis of presentation:

The accompanying financial statements have been prepared by the Company, without audit. In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring accruals) necessary for a fair presentation of the financial position as of December 31, 2002 and June 30, 2003, and the results of operations and cash flows for the periods ended June 30, 2002 and 2003.

The financial statements have been prepared on a going concern basis which contemplates the realization of assets and liquidation of liabilities in the ordinary course of business. As shown in the accompanying financial statements, the Company has incurred significant losses and at June 30, 2003, the Company has a working capital deficit of \$1,273,598 and a stockholders' deficit of \$1,159,590. In addition, the Company is delinquent on payment of payroll taxes and creditor liabilities pursuant to the plan of reorganization. As a result, substantial doubt exists about the Company's ability to continue to fund future operations using its existing resources.

On December 19, 2001, by board resolution pursuant to a subscription agreement, the board of directors designated 25,000 of Class A Preferred Stock as Series 2 Convertible Preferred Stock, in a proposed placement of up to \$200,000 of such preferred stock at \$10 per share face value. As of June 30, 2003, the Company received proceeds of \$193,287 for the purchase of 19,329 shares of Series 2 Convertible Preferred Stock. As a development stage company, the Company continues to rely on infusions of debt and equity capital to fund operations. Subsequent to the end of the second quarter, the Company received an additional \$6,713 from Eagle Capital to complete its subscription for the Series 2 Convertible Preferred Stock and issued an additional 671 shares of such preferred stock for a total issuance of 20,000 shares of the Series 2 Convertible Preferred. 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.

The Company has modified its business plan to focus on identification of a high-growth and high margin industry sector in which present conditions are favorable for entry by the Company and to develop ventures in the chosen industry directly and through acquisition of management, capital, and assets by one or more acquisitions of going concerns. The Company is evaluating several areas at the present time including the energy industry, such as purchasing interests in producing oil and/or gas properties, and alternative energy ventures such as wind energy and renewable energy. Also under consideration is creation and operation of one or more investment funds to engage in energy related and socially responsible investments. The Company will continue to seek to build a portfolio of equity and debt positions in promising emerging and high growth-stage companies and to provide such companies with financial and board level managerial support. The Company believes that it can provide its potential portfolio companies access to private and public debt and/or equity capital by offering these companies the opportunity to go public through a registered rights offering or dividend distribution to the Company's shareholders.

2. Delinquent amounts payable

As of June 30, 2003, the Company is delinquent on payments of various amounts to creditors including payroll taxes and \$62,316 to creditors required to be paid under the terms of its plan of reorganization. Failure to pay these liabilities could result in liens being filed on the Company's assets and may result in assets being attached by creditors resulting in the Company's inability to continue operations.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2003

3. Income taxes

The book to tax temporary differences resulting in deferred tax assets and liabilities are primarily net operating loss carryforwards of \$4,414,000 which expire in years through 2023.

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

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

4. Stock transactions

Effective July 15, 2002, the shareholders of the Company approved a 20 for 1 reverse stock split. All common share references in these financial statements have been revised to reflect the reverse split.

On December 19, 2001, by board resolution pursuant to a subscription agreement, the board of directors designated 25,000 shares of Class A Preferred Stock as Series 2 Convertible Preferred Stock, in a proposed placement of up to \$200,000 of such preferred stock at \$10 per share face value. As of June 30, 2003, the Company received proceeds of \$193,287 for the purchase of 19,329 shares of Series 2 Convertible Preferred Stock. These preferred shares are convertible into 19,328,671 shares of common stock.

On January 29, 2003, the Company issued 5,000,000 shares of common stock valued at \$75,000, and granted stock options to purchase 3,000,000 shares at \$0.0165 per share to its officers and directors for compensation for the first quarter. These options are exercisable beginning 79 days from the date of issuance and for a period of two years thereafter. Additionally during the first quarter, 1,000,000 shares of common stock were issued to one consultant for services performed valued at \$15,000. On April 1, 2003, the Company issued 1,000,000 common shares to the CEO for compensation valued at \$14,000 or \$0.014 per share and granted stock options to purchase 3,000,000 common shares at \$0.0155 per share to its officers and directors for compensation in the second quarter. These options are exercisable for a period beginning June 30, 2003 and expiring on April 1, 2005. On April 3, 2003, the CEO and a consultant exercised 1,000,000 common stock options each for \$0.02 per share for a total of \$25,000 in cash and payment of \$15,000 in notes payable to the CEO. Additionally, during the second quarter, 1,000,000 shares of common stock were issued to one consultant for services performed valued at \$20,000.

By agreement dated March 6, 2003, the Company engaged a consultant to provide corporate communications support for a period of six months from such date for compensation of 3,000,000 common shares and stock options to purchase up to 4,000,000 common shares for \$0.015 per share for a period expiring 6 months from such date (valued at \$16,737). 1,500,000 of these shares were issued in the first quarter valued at \$22,500 and the Company issued the second 1,500,000 shares during the second quarter valued at \$30,000.

On March 7, 2003, the Company issued 200,000 shares of common stock valued at \$7,258 in final settlement of a wage claim.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2003

4. Stock transactions (continued)

During the second quarter, the Company inadvertently issued shares and/or granted stock options which exceeded the number of common shares allocated to its 2002 Incentive Stock Option Plan by 683,333 shares. Certain of these include shares reserved for issuance on exercise of outstanding stock options. During the second quarter, the Company adopted a policy not to allow exercise of the most recently granted stock options unless other outstanding options expire, other shares pending issuance are cancelled or shares that were issued under the plan can be reassigned outside of the 2002 Plan or included in the anticipated 2003 Omnibus Stock Compensation and Incentive Plan in sufficient number to allow their exercise.

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 period ended June 30, 2003 in accordance with the provisions of SFAS No. 123, the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below:

	<u>2002</u>	<u>2003</u>
Net loss - as reported	\$ (140,209)	\$ (249,845)
Net loss - pro forma	(140,209)	(302,987)
Loss per share - as reported	(0.01)	(0.01)
Loss per share - pro forma	(0.01)	(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, dividend yield of 0%; expected volatility of 100%, risk-free interest rate of 1.45% to 1.75%; and expected life of .5 to 2 years.

5. Subsequent Events

On July 21, 2003, Mr. Gerald J. Brandimarte resigned as an officer and director of the Company, agreeing to cancel his outstanding stock options to purchase up to 4,000,000 shares of common stock. Mr. Brandimarte resigned after efforts to develop a variable rate bond trust financing vehicle proved unsuccessful and to resolve an inherent conflict of interest relating to his ownership and management position with Tri-State Transfer Industries, LLC., with whom the Company has a letter of intent to acquire a 5% Limited Liability Membership Interest at such time as this company completes the most preliminary steps of its development stage.

Following the end of the second quarter, an additional 3,000,000 in common stock options were cancelled, and an additional 5,000,000 common stock options were suspended pending reassignment to a subsequent compensation plan or the availability under the current plan to allow for their exercise prior to such reassignment.

ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2003

5. Subsequent Events (continued)

By agreement dated August 4, 2003, the Company engaged a corporate consultant to provide advisory services, recommendations and to make introductions to assist the Company in refining and executing its business plan, including corporate finance, mergers and acquisitions and corporate visibility. The agreement is for a term of 6 months for compensation of 7,000,000 common shares valued at \$0.01 per share or \$70,000 and is renewable for additional periods.

Also, on August 4, 2003, the Company issued 1,000,000 shares of common stock valued at \$10,000 to a consultant for printing, direct mail and further media services, and issued 500,000 common shares each to its remaining two directors for compensation valued at \$5,000 each.

Following the end of the second quarter, the Company received \$6,713 from an affiliated company toward a subscription for Series 2 Preferred Stock and issued 671 shares of such preferred stock, completing the \$200,000 subscription agreement executed by such affiliate.

Item 2-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 Report requires the Company to make estimates and assumptions that affect the reported amount of assets and liabilities of the Company, revenues and expenses of the Company during the reporting period and contingent assets and liabilities as of the date of the Company's financial statements. There can be no assurance that the actual results will not differ from those estimates.

Stock issuances:

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

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

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

Revenue recognition:

The Company has provided management services to companies in the process of developing new products with no operations. These management fees have not been recorded as revenue when such services were performed since collectibility was not reasonably assured.

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. The conversion privilege of the designated Series 1 and Series 2 Convertible Preferred Stock has been adjusted to reflect the effect of the referenced reverse stock split.

During fiscal years 2000 and 2001, the Company operated as a business incubator for its Arête Outdoors subsidiary and a software development project of a language teaching

software system, robotic control system and other applications utilizing a proprietary artificial intelligence engine developed by Dr. William Hutchison. These projects were initially funded internally, but the Company was unable to raise sufficient additional capital to continue to support further start-up and development stage activities and were abandoned at the end of 2001. During fiscal year 2002, the Company had downsized and engaged in restructuring to engage in business development activities for emerging growth companies by pursuing several alternative financing vehicles to provide candidates with growth capital. In the second half of fiscal year 2002, the Company initiated efforts to raise capital through investment grade debt securities and engaged in the process of finding acquisition and business development clients. These activities stalled due to the inability of the Company and its affiliates to successfully execute an underwriting of a variable rate bond note funding. However, at the end of fiscal year 2002, the Company, initiated a transaction to acquire an interest in a venture to create a series of municipal solid waste and construction and demolition facilities on the east coast. This project is still in its formative stages.

At the end of July, 2003, Mr. Brandimarte resigned as an officer and director of the Company. He also resigned and recanted his interest in Eagle Capital Funding Corp., an affiliate of the Company. He also assigned his Membership Interest in Eagle Capital Fund – I, LLC to Eagle Capital Funding Corp. (“ECF”), the Managing Member of Eagle Capital Fund – I, LLC. (“ECF-I”) In September, 2002, Messrs. Raabe, Stewart and Brandimarte each purchased an 18% interest in ECF-I, with 1,000,000 shares each of their common stock of the Company, or a total of 3,000,000 shares. ECF is currently owned by the CEO and Mr. Stewart, a director and executive officer of the Company and it owns 20,000 shares of the Company’s Series 2 Convertible Preferred Stock (the “Series 2 Preferred”) as of August 14, 2003. The 20,000 shares of Series 2 Preferred are convertible into 20,000,000 shares of the Company’s common stock at \$0.01 in face value of preferred per common share, and were purchased for \$10.00 per share or \$200,000 in cash. ECF-I owns 10,000 of the 20,000 outstanding shares of the Series 2 Preferred convertible into 10,000,000 common shares which were purchased with \$100,000 in notes payable by the Company to third parties who purchased LLC Membership Interests in ECF-I with the referenced notes payable. Through their ownership of ECF and their direct and indirect interests in ECF-I, the two directors currently own a controlling interest in the Company.

During the fourth quarter of fiscal 2002, we continued to downsize our operations, preserved our assets and resources, and maintained our current reporting status as a public company in order to preserve our continuity and our ability to launch our new corporate vision. In December 2002, the Company moved its corporate offices into an executive suite, reducing its overhead to an absolute minimum. During the first and second quarters of the current fiscal year, we have re-examined our corporate direction and focus and have determined to pursue business as a business development company, but to concentrate our resources on developing ventures in a single industry sector while retaining the option of assisting growth stage companies in other industries achieve their objectives of going public through an association with the Company through a registered rights offering or stock dividend to the Company’s public shareholders. Presently, 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, infusions from related parties, and by the

issuance of common stock for services. The Company will be required to rely upon ongoing financial support from these parties for the foreseeable future.

Financial Condition

As of June 30, 2003, the Company had \$165,871 in total assets and \$1,325,461 in total liabilities, as compared to \$176,871 and \$1,334,973 at the end of fiscal year ended December 31, 2002, respectively. Accounts payable and accrued expenses at June 30, 2003 were \$1,296,543 as compared to \$1,288,791 at December 31, 2002. During the six month period ended June 30, 2003, the Company repaid \$17,754 in notes payable to the CEO, paid \$89,000 in compensation and paid \$87,500 in consulting fees with issuance of common stock and stock options. During April of 2003, the Chief Executive Officer exercised 1,000,000 in common stock options with \$5,000 in cash and payment of \$15,000 of note payable; and a consultant exercised 1,000,000 in common stock options with \$20,000 in cash.

The Company's subsidiary, Global Direct Marketing Services, Inc., which is now inactive, has left an obligation of trade payables of \$87,625 and unpaid 1999 payroll taxes of \$58,230 remaining from its printing and direct mail advertising business. The Company owes approximately \$231,531 in unpaid Federal payroll taxes for calendar years 1995 through 1997, 2000 and 2001. Further the Company owes \$62,316 to creditors under its Plan of Reorganization confirmed in September 1995. (See: Note 2 to Financial Statements.)

During the period ended June 30, 2003, the Company continued to rely upon infusions of cash from loans and cash advances by officers, directors and affiliates of the Company. During the second quarter of 2003, \$4,317 was received in partial payment of a subscription agreement for purchase of Series 2 Preferred Stock. The proceeds were used for overhead, payment of corporate obligations, legal fees and accounting expenses for corporate reporting. As of June 30, 2003, executive salaries and bonuses of \$518,873 were accrued and unpaid, and the Company had \$218,820 in notes receivable for stock sales from former management members.

Results of operations

The Company's operations during the second quarter of 2003 have been confined to business development activities of its officers, directors and consultants, and administrative bookkeeping tasks related to creditor and investor relations and securities act compliance. The Company is currently not providing new venture management or advisory activities and therefore not generating revenue from executive and management services.

The Company's revenues from operations for the three month period ended June 30, 2003 were \$0, as compared to revenues of \$0 for the same period in 2002. Operating expenses for the three month period ended June 30, 2003 were \$99,177, as compared to \$92,644 for the same period in 2002, resulting in an operating loss of \$99,177 and \$92,644 for the three month period ended June 30, 2003 and 2002, respectively. Operating expenses for the three month period ended June 30, 2003 included officer and director compensation of \$14,000, consulting of \$50,000 and other operating expenses of \$35,177, including accounting fees, bookkeeping, transfer agent fees, and storage fees.

Operating expenses for the comparative three month period ended June 30, 2002 were \$29,000 in accrued executive salaries, rent of \$6,464 and other operating expenses of \$57,180 including consulting, bookkeeping, shareholder communication, transfer agent fees, accounting and auditing expenses and costs associated with the annual shareholders meeting in July 2002.

The Company's revenues from operations for the six month period ended June 30, 2003 were \$0, as compared to revenues of \$379 for the same period in 2002. Operating expenses for the six month period ended June 30, 2003 were \$247,084, as compared to \$142,275 for the same period in 2002, resulting in an operating loss of \$247,084 and \$141,896 for the six month period ended June 30, 2003 and 2002, respectively. Operating expenses for the six month period ended June 30, 2003 included officer and director compensation of \$89,000, consulting of \$105,187 and other operating expenses of \$52,897, including accounting fees, bookkeeping, transfer agent fees, and storage fees. Operating expenses for the comparative six month period ended June 30, 2002 were \$61,000 in accrued executive salaries, rent of \$16,268 and other operating expenses of \$65,007 including consulting, bookkeeping, shareholder communication, transfer agent fees, accounting and auditing expenses and costs associated with the annual shareholders meeting in July 2002.

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 Arête Outdoors inventory for approximately \$550 per month.

We envision operating the Company as a holding company in the future for other going concerns and revenue generating businesses, which will require minimal staff for accounting and administrative matters. Our future expectation is that monthly operating expenses will remain as low as possible until new opportunities are initiated, of which there can be no assurance, in which event, the operating costs of the Company may increase relative to the need for administrative and executive staff and overhead to provide support for these new business entities.

Liquidity and Capital Resources

The Company had a working capital deficit as of June 30, 2003 of \$1,273,598. This compares to a working capital deficit of \$1,287,373 as of December 31, 2002. During the quarter ended June 30, 2003 an aggregate of 5,500,000 shares of common stock were issued for aggregate consideration of \$104,000 (avg. \$0.019 per share) and the Company issued 432 shares of Series 2 Convertible Preferred Stock valued at face value of \$4,316.

The Company had a stockholder's deficit at June 30, 2003 of \$1,159,590. This is compared to stockholder's deficit at December 31, 2002 of \$1,158,102. The stockholder's deficit increased due to the Company operating at a loss, offset by the exercise of stock options for cash and payment of notes payable to insiders, and the issuance of preferred stock for cash.

At June 30, 2003, the Company had no material commitments for capital expenditures.

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

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.

The Company has recently reduced the number of outstanding common shares to allow it to raise equity capital and to effect conversion and exercise of outstanding common stock options and conversion rights of preferred stock which has been reserved for issuance to insiders in exchange for their accrued cash advances, and for issuance in a private placement of up to \$200,000 in Series 2 Convertible Preferred stock, which the Company completed on August 14, 2003. As of June 30, 2003, the Company had raised \$193,287 in gross proceeds of this private placement and had 19,329 outstanding shares of Series 2 Convertible Preferred.

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.

Subsidiaries/Employees

Arête Industries, Inc. has its CEO on a full time basis and its second director who serves part-time as a corporate officer. The Company employs independent contractors for special services including accounting services, shareholder relations, marketing and business plan development, and business development, merger and acquisition services. The Company's subsidiary, Aggression Sports, Inc. presently has no employees other than its acting president, the Company's current CEO. The CEO operates and manages both entities and remains on a deferred salary basis for the first two quarters of 2003. During the first two quarters, the CEO accepted 2,000,000 shares of common stock as a compensation grant valued at \$29,000, an Incentive stock option to purchase 1,000,000 shares of common stock at \$0.0165 per share and an incentive stock option to purchase 1,000,000 shares of common stock at \$0.0155 per share. During the first two quarters, the two outside directors each received 2,000,000 share common stock grants valued at \$30,000 each and Incentive Stock Options to purchase 1,000,000 common shares of common stock each at \$0.0165 per share for compensation for the first quarter and 1,000,000 common shares each at \$0.0155 per share for compensation for the second quarter. Following the end of the second quarter, the two outside directors agreed to cancel 7,000,000 common stock options, and the CEO and remaining director agreed to suspend from exercise their remaining 4,000,000 common stock options until such time as sufficient shares become available under the Company's current plan or a future stock option plan.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

During the Period ended June 30, 2003, there were no material legal proceedings initiated by or against the Company or any of its officers, directors or subsidiaries.

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

Item 2. Changes in Securities

(a) Changes in Instruments Defining Rights of Security Holders.

Previously Reported.

(b) Not Applicable

(c) Item 701 Reg. SB. - The following were the unregistered shares of common stock sold by the registrant during the period covered by this report.

None

Item 3. Defaults Upon Senior Securities.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K

Exhibit 31.1 Certification of CEO and CFO Pursuant to 18 U.S.C, Section 1350, as adopted and Section 302 of the Sarbanes-Oxley Act of 2002.

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

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

SIGNATURES

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

ARETE INDUSTRIES, INC.

Date: August 19, 2003

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

**CERTIFICATION PURSUANT TO
SECURITIES EXCHANGE ACT OF 1934: RULES 13a-14, 13a-15, 15d-14, and 15d-15
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas P. Raabe, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Arête Industries, Inc.
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;
5. I have disclosed, based on my most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Dated: August 19, 2003

By: /s/ Thomas P. Raabe
Chief Executive Officer and
Interim Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report of Arête Industries, Inc. (the "Company") on Form 10-QSB for the period ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas P. Raabe, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: August 19, 2003

By: /s/ Thomas P. Raabe
Chief Executive Officer and
Interim Chief Financial Officer