

---

**FORM 10-Q**

---

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

**For the quarterly period ended September 30, 2015**

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

**ARÊTE INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

Colorado

(State or Other Jurisdiction of Incorporation or Organization)

84-1508638

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

7260 Osceola Street, Westminster, Colorado 80030  
(Address of Principal Executive Offices) (Zip Code)

303-427-8688

(Registrant's Telephone Number, Including Area Code)

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 <sup>(1)</sup>

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

As of November 16, 2015, the Registrant had 13,130,413 shares of common stock issued and outstanding.

<sup>1</sup> Explanatory Note: The Company is a voluntary filer with the Securities and Exchange Commission but it has filed all Exchange Act reports for the preceding 12 months.

---

# ARÊTE INDUSTRIES, INC.

## Table of Contents

	<u>Page</u>
<b>Part 1 - Financial Information</b>	3
Item 1 - Financial Statements	3
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3 - Quantitative and Qualitative Disclosures about Market Risk	18
Item 4 - Controls and Procedures	19
<b>Part 2 - Other Information</b>	19
Item 1 - Legal Proceedings	19
Item 1A - Risk Factors	19
Item 2 - Sales of Unregistered Equity Securities and Use of Proceeds	19
Item 3 - Defaults upon Senior Securities	19
Item 4 - Mine Safety Disclosures	19
Item 5 - Other Information	19
Item 6 - Exhibits	20
<b>Signatures</b>	21

## **Part 1 – FINANCIAL INFORMATION**

### **Item 1 - Financial Statements**

#### **ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES UNAUDITED CONSOLIDATED BALANCE SHEETS**

ASSETS	<u>December 31, 2014</u>	<u>September 30, 2015</u>
<b>Current Assets:</b>		
Cash and equivalents	\$ 30,755	\$ 2,109
Oil and gas sales receivable	14,521	63,325
Receivable from DNR Oil & Gas, Inc.:		
Oil and gas sales, net of production costs	89,147	39,173
Other	78,273	-
Prepaid expenses and other	<u>34,222</u>	<u>21,840</u>
<b>Total Current Assets</b>	<u>246,918</u>	<u>126,447</u>
<b>Property and Equipment:</b>		
Oil and gas properties, at cost, successful efforts method:		
Proved properties	10,222,668	10,267,669
Unevaluated properties	348,836	348,836
Natural gas gathering system	442,195	442,195
Furniture and equipment	<u>22,522</u>	<u>22,522</u>
Total property and equipment	11,036,221	11,081,222
Less accumulated depreciation, depletion and amortization	<u>(2,840,173)</u>	<u>(3,349,871)</u>
<b>Net Property and Equipment</b>	<u>8,196,048</u>	<u>7,731,351</u>
<b>TOTAL ASSETS</b>	<u>\$ 8,442,966</u>	<u>\$ 7,857,798</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

**ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED BALANCE SHEETS, Continued**

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>December 31, 2014</b>	<b>September 30, 2015</b>
<b>Current Liabilities:</b>		
Accounts payable:		
Payable to DNR Oil & Gas, Inc.:		
Operator fees and other	36,000	128,253
Unrelated parties	43,365	72,621
Notes and advances payable - current portion:		
Directors and affiliates	288,258	288,567
Unrelated parties	872,239	970,400
Accrued interest expense	3,279	31,377
Accrued consulting - related party	21,800	23,700
Director fees payable in common stock	20,900	-
Current portion of asset retirement obligations	191,843	297,700
Other accrued costs and expenses	63,642	148,777
<b>Total Current Liabilities</b>	<b>1,541,326</b>	<b>1,961,395</b>
<b>Long-Term Liabilities:</b>		
Contingent acquisition costs payable to DNR Oil & Gas, Inc.	250,000	250,000
Notes and advances payable, net of current portion:		
DNR Oil & Gas, Inc.	792,151	792,151
Directors and affiliates	62,440	49,206
Unrelated parties	63,534	25,640
Asset retirement obligations, net of current portion	557,170	506,500
<b>Total Long-Term Liabilities</b>	<b>1,725,295</b>	<b>1,623,497</b>
<b>Total Liabilities</b>	<b>3,266,621</b>	<b>3,584,892</b>
<b>Commitments and Contingencies (Notes 3, 4, 10 and 13)</b>		
<b>Stockholders' Equity:</b>		
Convertible Class A preferred stock; \$10,000 face value per share, authorized 1,000,000 shares:		
Series 1; authorized 30,000 shares, no shares issued and outstanding in 2014 and 2015	-	-
Series 2; authorized 2,500 shares, no shares issued and outstanding in 2014 and 2015	-	-
Common stock, no par value; authorized 499,000,000 shares, issued and outstanding 12,558,459 in 2014 and 13,130,413 in 2015	21,294,887	21,384,285
Accumulated deficit	(16,118,542)	(17,111,379)
<b>Total Stockholders' Equity</b>	<b>5,176,345</b>	<b>4,272,906</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 8,442,966</b>	<b>\$ 7,857,798</b>

The Accompanying Notes are an Integral Part of These Financial Statements.

**ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
<b>Revenues:</b>				
Oil and natural gas sales	\$ 555,984	\$ 253,235	\$ 1,721,223	\$ 730,460
Sale of oil and natural gas properties	108,479	-	350,951	27,120
Royalty revenues	755	514	2,525	4,455
Total revenues	<u>665,218</u>	<u>253,749</u>	<u>2,074,699</u>	<u>762,035</u>
<b>Operating Expenses:</b>				
Oil and gas producing activities:				
Lease operating expenses	196,134	270,719	566,068	685,587
Production taxes	52,245	29,101	143,891	66,900
Depreciation, depletion, amortization and accretion	210,335	189,335	502,180	531,292
Gas gathering:				
Operating expenses	609	-	7,979	1,406
Depreciation	11,055	11,055	33,165	33,165
General and administrative expenses:				
Director fees	10,000	13,333	10,450	35,333
Investor relations	2,448	30,897	37,634	41,525
Legal, auditing and professional fees	37,109	6,458	115,753	80,313
Consulting fees executive services-related parties	41,250	43,333	168,750	126,733
Other administrative expenses	18,084	20,699	59,166	65,138
Depreciation	143	143	428	428
Total operating expenses	<u>579,412</u>	<u>615,073</u>	<u>1,645,464</u>	<u>1,667,820</u>
Operating income (loss)	85,806	(361,324)	429,235	(905,785)
Interest expense	(33,350)	(28,372)	(103,328)	(87,052)
Total other expense	(33,350)	(28,372)	(103,328)	(87,052)
Income (loss) before income taxes	52,456	(389,696)	325,907	(992,837)
<b>Income tax benefit (expense)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net income (loss) attributable to Arete Industries, Inc.</b>	<u>\$ 52,456</u>	<u>\$ (389,696)</u>	<u>\$ 325,907</u>	<u>\$ (992,837)</u>
<b>Net Income (Loss) Applicable to Common Stockholders:</b>				
Net income (loss)	\$ 52,456	\$ (389,696)	\$ 325,907	\$ (992,837)
Redemption of Preferred Stock	17,951	-	17,951	-
Accrued Preferred stock dividends	(1,875)	-	(9,375)	-
Net income (loss) applicable to common stockholders	<u>\$ 68,532</u>	<u>\$ (389,696)</u>	<u>\$ 334,483</u>	<u>\$ (992,837)</u>
<b>Earnings (Loss) Per Share Applicable to Common Stockholders:</b>				
Basic	<u>\$ 0.01</u>	<u>\$ (0.03)</u>	<u>\$ 0.03</u>	<u>\$ (0.08)</u>
Diluted	<u>\$ 0.01</u>	<u>\$ (0.03)</u>	<u>\$ 0.03</u>	<u>\$ (0.08)</u>
<b>Weighted Average Number of Common Shares Outstanding:</b>				
Basic	<u>12,408,000</u>	<u>12,966,000</u>	<u>12,532,000</u>	<u>12,764,000</u>
Diluted	<u>12,408,000</u>	<u>12,966,000</u>	<u>12,532,000</u>	<u>12,764,000</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

**ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(DEFICIT)**

For the Nine Months Ended September 30, 2015

	<u>Common Stock</u>		<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Deficit</u>	
Balances, December 31, 2014	12,558,459	\$ 21,294,887	\$ (16,118,542)	\$ 5,176,345
Common Stock Issued for Services - Related Parties	216,666	33,166		33,166
Common Stock Issued for Directors Fees	355,288	56,232		56,232
Net loss			(992,837)	(992,837)
Balances, September 30, 2015	<u>13,130,413</u>	<u>\$ 21,384,285</u>	<u>\$ (17,111,379)</u>	<u>\$ 4,272,906</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

**ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Nine Months Ended September 30, 2014 and 2015

	<u>2014</u>	<u>2015</u>
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ 325,907	\$ (992,837)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	486,061	509,698
Accretion of discount on asset retirement obligations	49,712	55,187
Gain on sale of oil and gas properties	(350,951)	(27,120)
Common stock issued in exchange for services	-	55,165
Changes in operating assets and liabilities:		
Accounts receivable	(208,639)	79,443
Prepaid expenses and other	(2,552)	25,715
Accounts payable	83,069	118,044
Directors fees and officers services payable	19,200	-
Accrued costs and expenses	12,781	115,133
Net cash provided by (used in) operating activities	<u>414,588</u>	<u>(61,572)</u>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures for property and equipment	(449,791)	(64,416)
Proceeds from sale of oil and gas properties	<u>263,438</u>	<u>50,000</u>
Net cash provided by (used in) investing activities	<u>(186,353)</u>	<u>(14,416)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from notes and advance payable	622,638	67,000
Principal payments on notes payable	(1,080,776)	(19,658)
Redemption of common stock	(228,000)	-
Redemption of preferred stock	<u>(15,500)</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>(701,638)</u>	<u>47,342</u>
Net increase (decrease) in cash and equivalents	<u>(473,403)</u>	<u>(28,646)</u>
<b>Cash and equivalents, beginning of period</b>	<u>476,323</u>	<u>30,755</u>
<b>Cash and equivalents, end of period</b>	<u>\$ 2,920</u>	<u>\$ 2,109</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	<u>\$ 77,589</u>	<u>\$ 55,913</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>
<b>Supplemental Disclosure of Non-cash Investing and Financing Activities:</b>		
Additions to oil & gas property financed in accounts payable	<u>\$ -</u>	<u>\$ 3,465</u>
Common Stock Issued as a prepayment for services	<u>\$ -</u>	<u>\$ 13,333</u>
Common Stock issued for directors fees payable	<u>\$ -</u>	<u>\$ 20,900</u>
Conversion of A-1 Series Preferred Stock to Notes Payable	<u>\$ 62,000</u>	<u>\$ -</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

**ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2015**

1. Organization and Nature of Operations

Arête Industries, Inc. ("Arête" or the "Company"), is a Colorado corporation that was incorporated on July 21, 1987. The Company owns 100% of Arete Energy, Inc., which is an inactive subsidiary that has no assets, liabilities or operations. Arête has operated a natural gas gathering system in Wyoming since 2006 and on July 29, 2011, the Company purchased oil & natural gas properties in Colorado, Montana, Kansas, and Wyoming.

The Company seeks to focus on acquiring interests in traditional oil and gas ventures, and seek properties that offer profit potential from overlooked and by-passed reserves of oil and natural gas, which may include shut-in wells, in-field development, stripper wells, re-completion and re-working projects. In addition, the Company's strategy includes purchase and sale of acreage prospective for oil and natural gas and seeking to obtain cash flow from the sale and farm out of such prospects.

2. Summary of Significant Accounting Policies

**Basis of presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information. They do not include all information and notes required by GAAP for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to consolidated financial statements included in Arête's Annual Report on Form 10-K for the year ended December 31, 2014. In the opinion of management, the accompanying unaudited financial statements contain all adjustments, consisting of normal recurring accruals necessary for a fair presentation of the financial position as of December 31, 2014, and September 30, 2015, and the results of operations, changes in stockholders' equity, and cash flows for the periods ended September 30, 2014, and 2015. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for a full year. The Company's 2014 Annual Report on Form 10-K includes certain definitions and a summary of significant accounting policies and should be read in conjunction with this Form 10-Q.

In connection with the preparation of its unaudited condensed consolidated financial statements, the Company evaluated events subsequent to the balance sheet date of September 30, 2015, through the filing date of this report.

**Use of Estimates**

Preparation of the Company's financial statements in accordance with GAAP requires management to make various assumptions, judgments and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Changes in these assumptions, judgments and estimates will occur as a result of the passage of time and the occurrence of future events and, accordingly, actual results could differ from amounts initially established.

The most significant areas requiring the use of assumptions, judgments and estimates relate to the volumes of natural gas and oil reserves used in calculating depreciation, depletion and amortization ("DD&A"), the amount of expected future cash flows used in determining possible impairments of oil and gas properties and the amount of future capital costs used in these calculations. Assumptions, judgments and estimates also are required in determining future asset retirement obligations, impairments of undeveloped properties, and in valuing stock-based payment awards.

The only component of comprehensive income that is applicable to the Company is net income (loss). Accordingly, a separate statement of comprehensive income (loss) is not included in these financial statements.

**Principles of Consolidation**

The consolidated financial statements of the Company include the accounts of Arête and its inactive subsidiary, Arete Energy, Inc. All intercompany accounts and transactions have been eliminated in consolidation.

**ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2015**

**Earnings per share**

Basic net income (loss) per share of common stock is calculated by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding during each period. Diluted net income (loss) attributable to common stockholders is calculated by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding and other dilutive securities.

**New Accounting Pronouncements**

In April 2015, the FASB issued new authoritative accounting guidance requiring debt issuance costs to be presented on the balance sheet as a direct deduction from the carrying value of the related debt liability. This guidance is to be applied using a retrospective method and is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

There are no other new significant accounting standards applicable to the Company that have been issued but not yet adopted by the Company as of September 30, 2015, and through the filing date of this report that have not been disclosed above or in the 2014 Form 10-K.

**3. Oil and Gas Properties**

The Company has participated as a working interest owner in the four horizontal wells, which were drilled and completed in Campbell County, Wyoming in the Turner zone and one well in Converse County, Wyoming in the Turner Zone during 2014. The fees received as part of this participation for the quarter ended September 30, 2014 was \$350,951. The Company had no participation fees for the quarter ended September 30, 2015. The following is a description of the wells:

- 1) The Thielen #1-21 is in Section 21 Township 43N Campbell County Wyoming. This well was drilled to a total depth of approximately 15,350 including the lateral. The Company has an approximate 1.06% working interest and the well is producing.
- 2) The Thielen #2-21 is in Section 21 Township 43N Campbell County Wyoming. This well was drilled to a total depth of approximately 15,330 feet including the lateral. The Company has an approximate 1.06% working interest and the well is producing.
- 3) The Starlight Federal 28H is located in Section 7, Township 43N Campbell County Wyoming. This well was drilled to a total depth of approximately 15,310 including the lateral. The Company has an approximate 0.7025% working interest and the well is producing.
- 4) The Starlight Federal 30H is located in Section 7, Township 43N Campbell County Wyoming. This well was drilled to a total depth of approximately 15,310 including the lateral. The Company has an approximate 1.450088% working interest and the well is producing.
- 5) The Wibaux Gold Federal 4076-10-03-1SH is located in Section 10, Township 43N Converse County Wyoming. This well was drilled to a total depth of approximately 20,185 including the lateral. The Company has an approximate 0.2697755% working interest and the well is producing.

**4. Income taxes**

The book to tax temporary differences resulting in a net deferred tax asset are primarily net operating loss carry forwards of approximately \$8.3 million, which expire in 2018 through 2030. 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. For the quarter ended September 30, 2015, the Company did not recognize any income tax benefit due to the valuation allowance.

**ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2015**

5. Stock transactions and preferred stock dividends

During the nine month period ended September 30, 2015, the Company issued 571,954 shares of common stock for compensation for services; 106,140 shares of common stock were issued for board services at \$0.20 per share in 2014 and 165,815 and 83,333 shares of common stock were issued for board services at \$0.13 and \$0.16 per share, respectively, in 2015, and 50,000 and 166,666 shares of common stock were issued at \$0.13 and \$0.16, respectively, for service and consulting by three related parties.

6. Notes and advances payable

Notes payable consist of the following as of the date indicated:

	<b>December 31, 2014</b>	<b>September 30, 2015</b>
Officers, directors and affiliates:		
Note payable, interest at 7.5%, due March 2016	\$ 150,000	\$ 150,000
Notes payable, interest 7.0%, due January 2017	79,970	67,046
Notes payable, interest varies (see explanation below)	792,151	792,151
Collateralized note payable (see below)	<u>120,728</u>	<u>120,728</u>
Total officers, directors and affiliates	1,142,849	1,129,924
Less: Current portion of officers, directors, and affiliates	<u>288,258</u>	<u>288,567</u>
Long-term portion of officers, directors, and affiliates	<u>\$ 854,591</u>	<u>\$ 841,357</u>
Unrelated parties:		
Notes payable, interest at 7.5%, due March 2016	\$ 100,000	\$ 100,000
Note payable, interest variable (see below)	549,105	616,105
Note payable, interest at 7.0%, due August 2016	62,000	62,000
Notes payable, interest at 7.0%, due January 2017	41,668	34,935
Notes payable, interest at 7.0%, due August 2015	<u>183,000</u>	<u>183,000</u>
Total unrelated parties	935,773	996,040
Less: Current portion of unrelated parties	<u>872,239</u>	<u>970,400</u>
Long-term portion of unrelated parties	<u>\$ 63,534</u>	<u>\$ 25,640</u>

On April 29, 2013, the Company executed a promissory note under which the Company agreed to pay Apex Financial Services Corp, a Colorado corporation, ("Apex") the principal sum of \$1,000,000, with interest accruing at an annual rate of 7.5%, with principal and interest due on May 31, 2014. The Company also agreed to assign 75% of its operating income from its oil and gas operations and any lease or well sale or any other assets sales to Apex to secure the debt. Apex is 100% owned by the CEO, director, and shareholder of the Company, Nicholas L. Scheidt. The Company borrowed the full amount of principal on the note, and also paid a loan fee of \$10,000. In the event of default on the note and failure to cure the default in ten days, Apex may accelerate payment and the annual interest rate on the note will accrue at 18%. Default includes failure to pay the note when due or if the Company borrows any other monies or offers security in the Company or in the collateral securing the note prior to the note being paid in full. The outstanding principal balance as of September 30, 2015, was \$120,728. During March 2015, the Company and Apex entered into an amendment extending the maturity date to March 30, 2016.

On January 28, 2014, the Company entered into a line of credit loan agreement for \$1,500,000 due January 15, 2015, extended to January 28, 2016. The terms of the note are as follows: 1) the accrued interest is payable monthly starting February 28, 2014, 2) the interest rate is variable based on an index calculated based on a prime rate as published by the Wall Street Journal index (currently 3.25%) plus an add on index with the current and minimum rate of 6.5%, the note has draw provisions, with the first draw of \$479,701 4) the note is secured by seven wells and leases owned by the Company, a certificate of deposit for \$500,000 at CityWide Bank pledged by a related party, and 5) the personal guarantee of Nicholas Scheidt, Chief Executive Officer. The amount eligible for borrowing on the Credit Facility is limited to the lesser of (i) 65% of the Company's PV10 value of its carbon reserves based upon the most current engineering reserve report or (ii) 48 month cumulative cash flow based upon the most current engineering reserve report. In addition to the borrowing base limitation, the Company is required to maintain and meet certain affirmative and negative covenants and conditions in order to draw advances on the Credit Facility. The Credit Facility contains certain representations, warranties, and affirmative and negative covenants applicable to the Company, which are customarily applicable to senior secured loan facilities. Key covenants include limitations on indebtedness, restricted payments, creation of liens on oil and gas properties, hedging transactions, mergers and consolidations, sales of assets, use of loan proceeds, change in business, and change in control. The above-referenced promissory notes contain customary default and acceleration provisions and provide for a default interest rate of 21% per annum. In addition, the Credit Facility contains customary events of default, including: (a) failure to pay any obligations when due; (b) failure to comply with certain restrictive covenants; (c) false or misleading representations or warranties; (d) defaults of other indebtedness; (e) specified events of bankruptcy, insolvency or similar proceedings; (f) one or more final, non-appealable judgments in excess of \$50,000 that is not covered by insurance; (g) change in control (25% threshold); (h) negative events affecting the Guarantor; and (i) lender in good faith believes itself insecure. In an event of default arising from the specified events, the Credit Facility provides that the commitments thereunder will terminate and the Lender may take such other actions as permitted including, declaring any principal and accrued interest owed on the line of credit to become immediately due and payable. The Credit Facility is secured by a security interest in substantially all of the assets of

the Company, pursuant to a Security Agreement, Deed of Trust and Assignment of As-Extracted Collateral entered into between the Company and Citywide Banks. The outstanding principal balance as of September 30, 2015, was \$616,105.

**ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2015**

On January 1, 2014, the Company memorialized its short-term liabilities into formal promissory notes. These certain outstanding advances and other notes payable are now included in single promissory notes, all have been reported previously in its financial statements. Information concerning these promissory notes is set forth in the table below.

Name of Holder	Position	Principal Amount	Interest Rate	Monthly P&I Payment Amount	Number of Monthly Payments
Donald W. Prosser	Former Director	\$ 28,500	7.00%	\$ 564.33	60
Charles B. Davis	COO & Director	\$ 66,500	7.00%	\$ 1,316.78	60

The above-referenced promissory notes contain customary default and acceleration provisions and provide for a default interest rate of 18% per annum. The outstanding principal balances as of September 30, 2015, was \$67,046.

In addition, the Company also issued an unsecured promissory note in the amount of \$792,151 on January 1, 2014 to DNR Oil & Gas, Inc. ("DNR"). DNR is a company controlled by the Chief Operating Officer and director, Charles B. Davis. The DNR note accrues interest at the rate of 2.50% for the calendar years 2014 and 2015, 4.00% for the calendar year 2016, 6.00% for the calendar year 2017 and 8.00% for the remainder of the term of the DNR note. The DNR note matures on January 1, 2019. The DNR note requires payments as follows:

- One payment of \$250,000 in 2016;
- One payment of \$250,000 in 2017;
- One payment of \$250,000 in 2018; and
- The balance of principal and accrued interest on or before January 1, 2019.

The DNR note contains customary default and acceleration provisions and provides for a default interest rate of 18% per annum. The note is subordinated to the Bank Line of Credit. The outstanding principal balance as of September 30, 2015 was \$792,151.

In June 2013, in connection with the conversions of Series A1 Preferred Stock by Burlingame Equity Investors II, LP and Burlingame Equity Investors Master Fund, LP, the Company issued unsecured promissory notes in the original principal amounts of \$48,000 and \$552,000, respectively, with interest at 7% per annum payable quarterly and all unpaid interest and principal due on July 23, 2014. The Company entered into an extension agreement with the holders of these two existing notes, whereby the Company made a principal payment on the balance in exchange for an extension of the maturity date to January 15, 2015, and entered into another extension agreement further extending the maturity date to January 28, 2016. Information concerning the principal pay down is set forth in the following table.

Name of Holder	Principal Balance Before Pay down	Principal Pay down	Remaining Principal Balance
Burlingame Equity Investors II, LP	\$ 44,000	\$ 26,251	\$ 17,749
Burlingame Equity Investors Master Fund, LP	506,000	\$ 340,749	\$ 165,251

**ARÊTE INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2015**

On August 15, 2014, the Company executed a Promissory Note to an individual for the redemption of 10 shares of Series A-1 Preferred Stock. The terms of the Promissory Note are as follows: \$62,000 with an interest rate of 7% payable in two payments of \$31,000 each plus interest, due August 15, 2015, and August 15, 2016, respectively. The Company did not make the August 15, 2015, payment and is currently in default on this note. The Company is negotiating new terms with the note holder.

All of the notes payable shown above are unsecured, except the Apex note. Accrued interest on notes amounted to \$3,279 as of December 31, 2014 and \$31,377 as of September 30, 2015.

7. Asset retirement obligations (ARO)

A reconciliation of the Company's asset retirement obligations for the quarter ended September 30, 2015, is as follows:

Balance, December 31, 2014	\$ 749,013
Liabilities incurred	—
Accretion expense	55,187
Revisions to estimate	—
	<u>                    </u>
Balance, September 30, 2015	804,200
	<u>                    </u>
Less current asset retirement obligations	(297,700)
	<u>                    </u>
Long-term asset retirement obligations	<u>\$ 506,500</u>

8. Subsequent events

There are no material subsequent events after September 30, 2015.

## Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

### *Forward-looking information*

This report contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended, that are based on management's exercise of business judgment as well as assumptions made by, and information currently available to, management. When used in this document, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend", and words of similar import, are intended to identify any forward-looking statements. You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as noted below. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize.

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with our audited financial statements and related notes included in our Annual Report on Form 10-K and the financial statements and footnotes included in this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q, including the following discussion, contains trend analysis and other forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any statements in this Quarterly Report on Form 10-Q that are not statements of historical facts are forward-looking statements. These forward-looking statements made herein are based on our current expectations, involve a number of risks and uncertainties and should not be considered as guarantees of future performance. The factors that could cause actual results to differ materially include without limitation:

- unsuccessful drilling and completion activities and the possibility of resulting write-downs;
- capital requirements and uncertainty of obtaining additional funding on terms acceptable to us;
- our lack of capital;
- price volatility of oil and natural gas prices, and the effect that lower prices may have on our earnings and stockholders' equity;
- a decline in oil or natural gas production or oil or natural gas prices, and the impact of general economic conditions on the demand for oil and natural gas and the availability of capital;
- geographical concentration of our operations;
- increases in the cost of drilling, completion and gas gathering or other costs of production and operations;
- our ability to successfully drill wells that produce oil or natural gas in commercially viable quantities;
- failure to meet our proposed drilling schedule;
- adverse variations from estimates of reserves, production, production prices and expenditure requirements, and our inability to replace our reserves through acquisition, exploration and development activities;
- our current level of indebtedness and the effect of any increase in our level of indebtedness;
- limited control over non-operated properties;
- reliance on limited number of customers;
- title defects to our properties and inability to retain our leases;
- our ability to retain key members of our senior management and key consulting resources;
- federal and state regulations and laws;
- impact of environmental, health and safety, and other governmental regulations, and of current or pending legislation;
- federal and state legislation and regulatory initiatives relating to hydraulic fracturing;
- risks in connection with evaluating potential acquisitions, integration of significant acquisitions, and difficulty managing our growth and the related demands on our resources;
- developments in the global economy;

- financing and interest rate exposure;
- effects of competition;
- effect of seasonal factors;
- lack of availability of drilling rigs, equipment, supplies, insurance, personnel and oil field services; and
- further sales or issuances of common stock.

Finally, our future results will depend upon various other risks and uncertainties, including, but not limited to, those detailed in the section entitled "Risk Factors" included in our Annual Report on Form 10-K. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this section and elsewhere in this report. Other than as required under securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

### ***General Overview***

We are an independent energy company engaged in the acquisition, exploration and development of oil, natural gas and natural gas liquids ("NGL's") in the United States. Our strategy is to deliver net asset value per share growth to our investors via attractive investments within the oil and gas industry. We seek properties that offer profit potential from overlooked and by-passed reserves of oil and natural gas, which may include shut-in wells, in-field development, stripper wells, re-completion and re-working projects. In addition, we seek acreage, prospective for oil and natural gas, to purchase in order to obtain cash flow from the re-sale and farm out of such prospects.

We do not intend to operate any of the properties in which we have an interest. As a result, we have limited ability to exercise influence over, and control the risks associated with operations of these properties. The failure of an operator of our wells to adequately perform operations, an operator's breach of the applicable agreements or an operator's failure to act in ways that are in our best interests could reduce our ability to be successful in finding reserves and could create a liability for us for the operator's failure to properly operate the project and adhere to applicable safety and environmental standards.

It is our desire to provide an understanding of the Company's past performance, its financial condition and its prospects for the future. Accordingly, we discuss and provide our analysis of the following:

- Results of operations;
- Liquidity and capital resources;
- Contractual obligations;
- Off balance sheet arrangements;
- Critical accounting policies;
- New accounting pronouncements.

### ***Oil, Gas, and NGL Prices***

Our financial condition and the results of our operations are significantly affected by the prices we receive for our oil, gas, and NGL production, which can fluctuate dramatically. Our oil and gas is sold under our operators contracts paying us various industry posted prices, adjusted for basis differentials. We are paid the average of the daily settlement price for the respective posted prices for the period in which the product is sold, adjusted for quality, transportation and location differentials.

## Results of Operations for the Three and Nine Months Ended September 30, 2014 and 2015

Presented below is a discussion of our results of operations for the Quarters Ended September 30, 2014 and 2015.

### Oil and Gas Producing Activities

The results of our producing oil and gas properties in Wyoming, Colorado, Kansas and Montana are presented below for the three and nine month periods ended September 30, 2014 and 2015:

	Three Months Ended		Nine Months Ended	
	2014	2015	2014	2015
Oil Sales	\$ 484,386	\$ 230,728	\$ 1,433,994	\$ 617,906
Natural Gas Sales	71,598	22,507	287,229	112,554
Sale of oil and natural gas properties	108,479	-	350,951	27,120
Royalty revenues	755	514	2,525	4,455
<b>Total Revenue</b>	<b>665,218</b>	<b>253,749</b>	<b>2,074,699</b>	<b>762,035</b>
Production Taxes	(52,245)	(29,101)	(143,891)	(66,900)
Lease Operating Expense	(196,134)	(270,722)	(566,068)	(685,587)
Depreciation, depletion, amortization and accretion	(210,335)	(189,335)	(502,180)	(531,292)
<b>Net</b>	<b>\$ 206,504</b>	<b>\$ (235,409)</b>	<b>\$ 862,560</b>	<b>\$ (521,744)</b>
Net barrels of oil sold	5960	5,495	16,727	14,400
Net mcf of gas sold	14,627	12,199	50,859	47,071
Boe	<u>8,398</u>	<u>7,528</u>	<u>25,204</u>	<u>22,245</u>
Average price for oil	\$ 81.27	\$ 41.99	\$ 85.73	\$ 42.91
Average price for gas	\$ 4.89	\$ 1.85	\$ 5.65	\$ 2.39
Lease operating expense per BOE	\$ 23.35	\$ 35.96	\$ 22.46	\$ 30.82
DD&A per BOE	\$ 25.05	\$ 25.25	\$ 19.93	\$ 23.88

Our oil sales are primarily attributable to our properties in Kansas and Wyoming. We realized lower oil and gas revenue during the three and nine months periods ended September 30, 2015, of \$253,658 and \$816,088 compared to the same periods in the prior year. This is due to lower realized prices and lower sales volumes. The average realized oil price for the three and nine month periods ended September 30, 2014, were \$81.27 and \$85.73 per barrel, respectively, compared to the average realized oil price for the three and nine month periods ended September 30, 2015, of \$41.99 and \$42.91 per barrel (a decrease of 48% and 50%), respectively. This decrease negatively impacted our oil sales revenues resulting in lower sales of \$215,866 and \$616,596 for the three and nine months periods ended September 30, 2015, respectively. In addition, we produced 465 and 2,327 fewer barrels of oil during the same periods, which resulted in lower oil sales of approximately \$37,792 and \$199,492, respectively. This decrease in our oil sales production is attributed to the natural decline of production in our wells and to the inclement weather in March, April and May, which made it difficult to get back to the tank batteries and pick up the oil to transport it to the market. The wells automatically shut-in once the tanks batteries became full. Our production did increase compared to the three month period ended June 30, 2015, by 1,527 barrels of oil. The average price per barrel compared to the three months ended June 30, 2015, decreased from \$50.41 to \$41.99. The result of the increased production offset the lower prices and we realized an increase in revenue of \$30,699 compared to the prior quarter.

The average realized natural gas prices, including proceeds from sales of natural gas liquids, was \$4.89 and \$5.65 per Mcf for the three and nine month periods ended September 30, 2014, respectively, compared to average realized natural gas prices of \$1.85 and \$2.39 per Mcf for the three and nine month periods ended September 30, 2015, respectively. Our sales volumes for natural gas decreased 2,428 and 3,788 Mcf for the three and nine months periods ended September 30, 2015, compared to the same periods in the prior year. Our natural gas has a high BTU content and this decline in the average realized gas price can be attributed to the lower realized prices received for the natural gas liquids sold compared to the prior year. The impact on natural gas sales in the current year due to the lower realized prices resulted in a decrease of \$37,206 and \$153,282 for the three and nine months periods ended September 30, 2015, respectively. The decrease in volumes impacted natural gas sales negatively by \$11,885 and \$21,393, respectively for the same periods.

During the nine months ended September 30, 2014, we sold a small working interest in five wells for a promote fee of \$350,951. We continue to evaluate our portfolio of properties and will sell additional properties if we believe a sale can be completed on terms that provide attractive returns.

Production taxes on a per BOE basis for the three and nine months ended September 30, 2015, decreased 44% and 54%, respectively, in line with the decrease in production revenues, compared to the same periods in 2014. We generally expect absolute production tax expense to trend with oil, gas, and NGL production revenue. Product mix, the location of production, and incentives to encourage oil and gas development can all impact or change the amount of production tax we recognize.

Lease operating expense per Barrel of Oil Equivalent ("BOE") for the three and nine months periods ended September 30, 2015, were \$35.96 and \$30.82 per BOE, an increase of 54% and 37%, respectively, compared to the same periods in 2014. Many of the wells included in our acreage have been producing for a decade or longer and the cost of workovers and normal maintenance are charged to expense in the period the costs are incurred. The increase in the cost per BOE can be attributed to lower production volumes and a workover project related to our Kansas and Wyoming wells. LOE for the three months ended September 30, 2015, was \$74,588 higher compared to the same period in the prior year. LOE for the nine months ended September 30, 2015, was \$119,519 higher compared to the same period in the prior year. The majority of this increase can be attributed to workover costs incurred during the three months ended September 30, 2015. We anticipate this work to have a favorable impact on production beginning in the fourth quarter of this fiscal year.

Under successful efforts accounting, DD&A expense is separately computed for each producing field based on geologic and reservoir delineation. The capital expenditures for proved properties for each field compared to the proved reserves corresponding to each producing field determine a weighted average DD&A rate for current production. Future DD&A rates will be adjusted to reflect future capital expenditures and proved reserve changes in specific areas. Our DD&A rate has increased as a result of a lower reserve base compared to the prior year.

### Gas Gathering Activities

We have owned and operated a natural gas gathering system (pipeline and compressor station) for coal bed methane properties in the Powder River Basin of Wyoming since 2006. We have had no revenues since June 2011 due to low natural gas prices which resulted in all wells in the field being shut-in. While this field is shut-in we do continue to perform routine maintenance to ensure it is in a safe condition and we continue to depreciate the gathering system. Operating expenses for the three and nine month periods ended September 30, 2015, were \$0 and \$1,406, respectively, compared to \$609 and \$7,979 during the same periods in the prior year.

### General and Administrative

Presented below is a summary of general and administrative expenses for the three and nine months periods ended September 30, 2014 and 2015:

	Three Months Ended		Nine Months Ended	
	2014	2015	2014	2015
General and administrative expenses:				
Director fees	\$ 10,000	\$ 13,333	\$ 10,450	\$ 35,333
Investor relations	2,448	30,987	37,634	41,525
Legal, auditing and professional fees	37,109	6,458	115,753	80,313
Consulting fees - Related Parties	41,250	43,333	168,750	126,733
Other administrative expenses	18,084	20,699	59,166	65,138
Depreciation	143	143	428	428
	<u>\$ 109,034</u>	<u>\$ 114,863</u>	<u>\$ 392,181</u>	<u>\$ 349,470</u>

General and administrative expenses increased \$5,830 for the three months period ended September 30, 2015, compared to the same period in the prior year and decreased \$42,710 for the nine months period ended September 30, 2015, compared to the same period in 2014. The increase for the three month period ended is attributable to higher costs related to director fees, investor relations and other general and administrative costs, offset by lower legal, auditing, professional and consulting costs. The reduction for the nine months period ended September 30, 2015, is due to an effort by management to reduce costs, with emphasis put on reducing legal, professional and consulting fees. These reductions have been slightly offset with higher director fees and investor relations costs, however, the director fees are satisfied with the Company's stock in an effort to preserve working capital to help fund operations.

There is a monthly charge of \$10,000 charged to professional fees under an agreement with DNR, whereby executive level expertise is provided for our existing and prospective oil and gas properties. The total monthly charge under the operating agreement is \$18,000, of which \$8,000 is allocated to lease operating expense. DNR is an affiliate of Charles B. Davis, an executive officer and director of the Company.

### Income (loss) from operations

Loss from operations for the three and nine month periods ended September 30, 2015, was \$389,696 and \$992,837 compared to income of \$52,456 and \$325,907 for the same periods in 2014. The loss is attributed to a decrease in oil and gas revenues of \$411,469 and \$1,312,664 or 62% and 63% for the three and nine months periods ended September 30, 2015, compared to the same periods in the prior year. We also experienced an increase of \$35,661 and \$22,356 or 6% and 1% increase in operating expenses. See discussion above for additional information on revenues and operating expenses.

## Interest Expense

Interest expense decreased approximately \$4,978 and \$16,276 during the three and nine months periods ended September 30, 2015, compared to the same periods in 2014. The decrease of interest expense was due to a decrease in debt compared to the same period the last year.

## Liquidity and Capital Resources

We had a working capital deficit as of September 30, 2015, of \$1,834,948, compared to a working capital deficit of \$1,294,408 at December 31, 2014. This increase of \$540,940 increase in our working capital deficit can be attributed to lower current assets of \$120,471 and higher current liabilities of \$420,069. The decrease in current assets can be attributed to a decrease in the Company's cash position and lower accounts receivable related to oil and gas sales. The increase in current liabilities is attributed to costs incurred for the workovers incurred in the third quarter that were not paid at September 30, 2015, accrued property taxes that are paid twice annually in April and October, some of our long term debt has become current and our some of our asset retirement obligations became current during the third quarter.

In order to meet our goals and objectives, we will need to seek additional capital, likely through asset sales and debt or equity financings, to continue our proposed operations. We can give no assurance that we will be able to raise such capital on such terms and conditions we deem reasonable, if at all. We will have limited financial resources until such time that we are able to generate such additional financing or additional cash flow from operations. Our ability to achieve profitability and positive cash flow is dependent upon our ability to exploit our oil and gas properties, generate revenue from our business operations and control our costs. Should we be unable to raise adequate capital or to meet the other above objectives, it is likely that we would have to substantially curtail our business activity or cease operating, and that our investors would incur substantial losses of their investment.

Our operating cash flow resulted in a net outflow of \$61,572 for the nine months period ended September 30, 2015, compared to operating cash flow of \$414,588 for the same period in 2014. This decrease is attributed to significantly lower oil and gas prices, resulting in a net loss and paying down accounts payables.

We used \$14,416 of cash flows related to investing activities for capital expenditures during the nine month period ended September 30, 2015, compared \$186,353 of cash flows used in investing activities for capital expenditures during the same period in the prior year.

During the nine month period ended September 30, 2015, we made principal payments of \$19,658 and borrowed an additional \$67,000 on our line of credit resulting in a net cash inflow for financing activities of \$47,342 compared to net cash used in financing activities of \$701,638 during the same period in the prior year. In the prior year we borrowed \$622,638, repaid borrowings of \$1,080,776, and redeemed \$228,000 in common stock of the Company and redeemed series A-1 preferred stock for \$15,500.

Part of our strategy is to monitor the current production of our properties, seek to develop them with infield drilling, and explore sales and purchases of additional leases and operating wells with upside. We are currently evaluating several opportunities for drilling in Wyoming, Colorado, and Oklahoma. We also expect to evaluate acquisitions that are consistent with our business objective of acquiring interests in traditional oil and gas ventures, and seeking properties that offer profit potential from overlooked and by-passed reserves of oil and natural gas. The Company has participated as a working interest owner in the four horizontal wells which were drilled and completed in Campbell County, Wyoming in the Turner zone and one well in Converse County, Wyoming in the Turner Zone. The following is a description of the wells:

- 1) The Thielen #1-21 is in Section 21 Township 43N Campbell County Wyoming. This well was drilled to a total depth of approximately 15,350 including the lateral. The Company has an approximate 1.06% working interest and the well is producing.
- 2) The Thielen #2-21 is in Section 21 Township 43N Campbell County Wyoming. This well was drilled to a total depth of approximately 15,330 feet including the lateral. The Company has an approximate 1.06% working interest and the well is producing.
- 3) The Starlight Federal 28H is located in Section 7, Township 43N Campbell County Wyoming. This well was drilled to a total depth of approximately 15,310 including the lateral. The Company has an approximate 0.7025% working interest and the well is producing.
- 4) The Starlight Federal 30H is located in Section 7, Township 43N Campbell County Wyoming. This well was drilled to a total depth of approximately 15,310 including the lateral. The Company has an approximate 1.450088% working interest and the well is producing.
- 5) The Wibaux Gold Federal 4076-10-03-1SH is located in Section 10, Township 43N Converse County Wyoming. This well was drilled to a total depth of approximately 20,185 including the lateral. The Company has an approximate 0.2697755% working interest and the well is producing.

In order to execute our development drilling plans and to acquire additional interests in oil and gas properties that meet our objectives, we need to obtain significant additional financing. We acquired our existing properties in July 2011, and from time to time we have sold our interests in some of those properties, which resulted in aggregate net proceeds from three sales of \$6,377,000, which was used to repay acquisition indebtedness. We intend to only sell properties that can be liquidated for a premium and there can be no

assurance that we will continue to generate any proceeds from the sale of our properties.

If oil and gas prices remain at these low levels beyond 2015 and additional debt or equity funding is unavailable on acceptable terms, or at all, our strategy would include some or all of the following: (i) shut-in any marginal or uneconomic wells, (ii) attempt to negotiate the issuance of common stock in exchange for services, and (iii) review and implement other opportunities to reduce general, administrative and operating expenses.

The failure to successfully implement one or all of these strategies may cause the Company to curtail its operations, sell its assets and result in the failure of its business.

#### ***Contractual Obligations and Commercial Commitments***

As of September 30, 2015, we have future minimum lease payments of approximately \$5,000. This amount is payable during the periods ending September 30, 2016, 2017, 2018, 2019 and 2020 in the amounts of \$1,000 each year respectively.

#### ***Off-Balance Sheet Arrangements***

In connection with the related party acquisition of oil and gas properties in the third quarter of 2011, we acquired interests in certain geologic zones of the properties. The Colorado and Kansas properties provide for additional consideration that is payable to the related party sellers if proved producing reserves are increased relating to these properties through drilling or recompletion activities over a period of ten years after the closing date. First to the extent that oil reserves increase, the sellers are entitled to additional consideration of \$250,000 for each increase of 20,000 net barrels. Second, to the extent that oil and gas prices increase, the sellers are entitled to additional consideration as the targeted price thresholds are exceeded for periods of 61 days. The increase in purchase price for the Kansas and Colorado properties is limited to a maximum of \$5 million.

The acquired properties that are located in Wyoming and Montana provide a similar formula as used for the Colorado and Kansas properties that could result in an obligation for additional purchase consideration to the extent that we perform future drilling or recompletion activities in formations that were not producing as of the September 29, 2011 closing date. Furthermore, if we sell properties where reserves have been proved up through drilling or recompletion, the sellers have retained an interest of 70% in the net sales proceeds (after we receive a recovery of 125% of the original purchase allocation in the amended and restated purchase agreement). The increase in purchase price for all properties (Colorado, Kansas, Wyoming and Montana) is limited to a maximum of \$25 million.

Due to consideration retained by the related party sellers from sales of properties through the fourth quarter of 2014, and \$500,000 of consideration payable in December 2014 due to a sustained increase in oil prices over \$90 and \$100 per barrel, the maximum future consideration has been reduced by approximately \$5.8 million to \$19.2 million as of June 30, 2015.

#### ***Critical Accounting Policies***

Please refer to Note 2 - Summary of Significant Accounting Policies and Use of Estimates included in Part II, Item 8 of our 2014 Annual Report on Form 10-K for discussion of our accounting policies and estimates.

#### ***New Accounting Pronouncements***

Please refer to Note 2 - Summary of Significant Accounting Policies and Use of Estimates under Part I, Item 1 of this report for new accounting matters.

#### **Item 3 - Quantitative and Qualitative Disclosures about Market Risk**

The Company is a "Smaller Reporting Company" as defined by Rule 229.10 (f)(1) and is not required to provide or disclose the information required by this item.

#### **Item 4 - Controls and Procedures**

As of September 30, 2015, our Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") conducted evaluations of our disclosure controls and procedures. As defined under Sections 13a-15(e) and 15d-15(e) of the Exchange Act, the term "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including the Certifying Officers, to allow timely decisions regarding required disclosure. Based on this evaluation, the Certifying Officers have concluded that our disclosure controls and procedures were not effective to ensure that material information is recorded, processed, summarized and reported by our management on a timely basis in order to comply with our disclosure obligations under the Exchange Act and the rules and regulations promulgated thereunder. As discussed in our Annual Report on Form 10-K for the year ended December 31, 2014, the ineffectiveness of our disclosure controls and procedures is due primarily to (i) our Board of Directors does not currently have any independent members that qualify as an audit committee financial expert, (ii) we have not developed and effectively communicated our accounting policies and procedures, and (iii) our controls over financial statement disclosures were determined to be ineffective.

Further, there were no changes in our internal control over financial reporting during the second fiscal quarter that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

#### **Item 1 - Legal Proceedings.**

From time to time, the Company is a party to routine litigation and proceedings that are considered part of the ordinary course of its business. The Company is not aware of any material current, pending, or threatened litigation.

#### **Item 1A - Risk Factors.**

There have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on April 15, 2015. The risk factors in our Annual Report on Form 10-K for the year ended December 31, 2014, in addition to the other information set forth in this quarterly report, could materially affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known to us or that we deem to be immaterial could also materially adversely affect our business, financial condition or results of operations.

#### **Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds.**

During the nine month period ended September 30, 2015, the Company issued 571,954 shares of common stock for compensation for services; 106,140 shares of common stock were issued for board services at \$0.20 per share in 2014 and 165,815 and 83,333 shares of common stock were issued for board services at \$0.13 and \$0.16 per share in 2015, and 50,000 and 166,666 shares of common stock were issued at \$0.13 and \$0.16, respectively, for service and consulting by three related parties. These shares were issued in private transactions pursuant to exemptions from registration afforded by section 4(a)(2) of the Securities and Exchange Act of 1933 and Regulation D. No underwriting or agents were involved in the foregoing issuances and no underwriting discounts or commissions were paid. The securities sold are subject to restrictions.

#### **Item 3 - Defaults upon Senior Securities.**

None

#### **Item 4 - Mine Safety Disclosures.**

Not Applicable

#### **Item 5 - Other Information.**

None

## Item 6 - Exhibits

The following documents are filed as exhibits to this report on Form 10-Q or incorporated by reference herein.

- 31.1 Certification of the Principal Executive Officer pursuant to §302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Principal Financial Officer pursuant to §302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350.
- 101 The following materials are filed herewith: (i) XBRL Instance, (ii) XBRL Taxonomy Extension Schema, (iii) XBRL Taxonomy Extension Calculation, (iv) XBRL Taxonomy Extension Labels, (v) XBRL Taxonomy Extension Presentation, and (vi) XBRL Taxonomy Extension Definition. In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by the specific reference in such filing.

# ARÊTE INDUSTRIES, INC.

## 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.

By: /s/ Nicholas Scheidt, CEO

Nicholas L Scheidt, Principal Executive Officer

Dated: November 16, 2015

By: /s/ Tristan R. Farel

Tristan R. Farel, Chief Financial Officer

Dated: November 16, 2015



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

I, Nicholas L. Scheidt, certify that:

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

Dated: November 16, 2015

By: /s/ Nicholas L. Scheidt  
Nicholas L. Scheidt, Chief Executive Officer

---



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

I, Tristan R. Farel, certify that:

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

Dated: November 16, 2015

By: /s/ Tristan R. Farel  
Tristan R. Farel, Chief Financial Officer

---



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-Q for the period ending September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicholas Scheidt, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: November 16, 2015

By: /s/ Nicholas L. Scheidt  
Nicholas L. Scheidt, Chief Executive Officer

---



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-Q for the period ending September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tristan R. Farel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: November 16, 2015

By: /s/ Tristan R. Farel  
Tristan R. Farel, Chief Financial Officer