

Paul Silver 772-219-7525

June 23, 2011


ARET:OTCQB
Sector: Energy

Industry: Oil and Gas E&P

Risk Level: Speculative

Statistics	
6/22/11 Closing Price	\$4.56
Coverage Initiation Price	\$4.56
52 Week High	\$6.15
52 Week Low	\$3.24
Market Capitalization	\$35.112M
Enterprise Value	\$37.284M
Shares Outstanding	
-Primary (5/12/11)	7.70M
-Fully Diluted (5/12/11)	7.70M
-Float (approximate)	5.17M
-10 Day Average Volume	9,886
Balance Sheet Data (3/31/11)	
-Current Assets	\$922,280
-Current Liabilities	\$3,475,186
-Total Assets	\$1,188,961
-Total Liabilities	\$3,475,186
Forward Fiscal 2012 P/E	7.01x
Price to Sales 2012E	2.56x

Rating - Buy	Initial
	6/23/11
12-Month Target Value Low	\$7.50
12-Month Target Value High	\$35.76
12-month Weighted Average Target Value	\$17.41



Source: BigCharts.com

Fiscal Year-end Dec.	Actual 2010	Estimated 2011	Estimated 2012	Estimated 2013
Revenue	\$0.17M	\$5.04M	\$19.5M	\$35.3M
Net Income (Loss)	(-\$0.9M)	\$0.77M	\$7.1M	\$14.0M
EPS - basic	(-\$0.17)	\$0.10	\$0.65	\$1.08
EPS - diluted	(-\$0.17)	\$0.10	\$0.65	\$1.08

Investment Highlights:

- Arête Industries, Inc. is an oil and gas play focused on properties located in Wyoming, Colorado, Kansas, and Montana with significant existing production and upside potential.
- The Company's primary focus is on the Powder River Basin, one of the richest petroleum provinces in the Rocky Mountains. More than 2.7 billion barrels of recoverable oil and over 2.3 TCF gas have been discovered in about 700 fields since the discovery of the giant Salt Creek field in 1908.
- One of the Company's other targeted geographic regions is the Denver-Julesburg (DJ) Basin, a rich deposit of oil and natural gas located in northeast Colorado and extending into Wyoming and Nebraska.
- Based on the Company's current drilling schedule, we expect revenue growth of 98% on a 3-year CAGR from 2011 through 2014.
- Arête Industries has a tight capital structure with only 7.7 million shares outstanding as of May 12, 2011.
- Arête management intends to move the Company to a listed exchange in the near future, which will increase liquidity and institutional buying interest in the stock.
- The Company is lead by Donald Prosser, a finance professional with a successful track record of business development and Charles B. Davis, an industry veteran with over 25 years of experience in the oil and gas industry.

Investment Consideration:

We are initiating coverage on shares of ARET with a Buy rating based on a \$17.41 per share 12-month weighted average target value.

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Important Note: This report contains forward-looking statements, particularly as related to pro forma financial statements, earnings estimates and business expectations, within the meaning of Section 27A of the Securities Act of 1933 and Sections 21E of the Securities Exchange Act of 1934, and are subject to the safe harbor created by these sections. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, goals, assumptions or future events or performance are not statements of historical fact and may be "forward looking statements." Forward looking statements are based on expectations, estimates and projections at the time the statements are made that involve a number of risks and uncertainties which could cause actual results or events to differ materially from those presently anticipated. These forward-looking statements are only made as of the date of their release and Wall Street Resources and the featured Company in this report do not undertake any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

I. OVERVIEW

Company

Arête Industries, Inc. (“Arête” or “the Company”) is in the process of buying oil and gas properties in the Rocky Mountain Region of the United States and is the operator of a gas gathering pipeline. The Company is pursuing projects that have significant upside potential and can produce significant revenue.

The Company recently signed a definitive agreement with DNR Oil & Gas, Inc. (DNR) and Tindall Operating Company (TOC) to acquire cash flow generating assets with current production and the further opportunity for drilling. They are currently producing approximately \$4 million in annual revenue and have significant upside potential. As this project is developed, Arête will have ownership interests in the revenue streams, which can be securitized and collateralized either through equity or private debt holders. This will enable the company to continue to grow, fulfill its ongoing financing requirements, and create value for its shareholders.

Arête Industries, Inc. is a Colorado corporation and is listed on the OTCQB market under the ticker symbol ARET. The Company has been publicly traded since 1987, and has over 8,000 shareholders. The Company is headquartered in Westminster, Colorado.

History

From inception through 2005, the Company was involved in many different business opportunities. In 2006, the Company decided to focus exclusively on actively pursuing oil and gas acquisitions, including cash flow generating oil and gas assets. On September 12, 2006, the Company closed on an acquisition agreement with PBR Energy, Inc. for a gas gathering pipeline. Since then, the Company has been focused on developing its existing properties, while continuing to pursue acquisitions of oil and gas properties with upside potential.

DNR Oil & Gas Inc. and Tindall Operating Company Acquisition

DNR and TOC have producing properties that all fall into the category of mature, low decline, long lived production. The properties are in four states: Wyoming, Colorado, Kansas, and Montana. Current net production is approximately 98 barrels of oil per day plus 582 Mcf per day net from the conventional oil and gas wells. The Buff Coalbed methane project produces approximately 209 Mcf per day net.

Collectively, 91 wells are currently generating daily production of 98 Bbls and 791 Mmcf, representing 177 Barrel Oil Equivalents (BOE) and revenue of approximately \$4.0 million per year based on \$75.00 oil and \$4.00 gas prices. Total net proved reserves are 1,943,344 barrels of oil equivalent.

Production	Number of Wells	Net Production		
		Mcfpd	BOPD	BOE
Type:				
PDP/Conventional	75	582	98	156
PDP/Coal Bed Methane	16	209	0	21
Total(s)	91	791	98	177
Proved Reserves				
		Net Proven Reserves		
		Mcfpd	BOPD	BOE
Type:				
PDP		1,934,789	417,003	610,482
PDNP		164,461	0	16,446
PUD		10,733,572	243,059	1,316,416
Total(s)		12,832,822	660,062	1,943,344
Oil/ Gas Mixture				
		Oil	Gas	Total
% of Production		55%	45%	100%
% of Reserves		31%	69%	100%

Pipeline

Arête owns and operates a natural gas gathering system (pipeline and compressor station related assets) in the Powder River Basin of Wyoming. The Company acquired this system in September 2006 and commenced operations shortly thereafter. This system was constructed in late 2001 and began operations early in 2002. The system consists of 4.5 miles of 8-inch coated steel pipeline. This pipeline is currently transporting approximately 700,000 Mcf (thousand cubic feet) of coal bed methane per day and is cash flowing from its operations. This system has a current throughput capacity of approximately 4 MMcf (million cubic feet) of gas per day. Gathering fees are subject to contracts which are life of lease or 10-year contracts expiring in 2012. Management expects these contracts to be renewed for another 10 year term.



Investment Summary/Conclusion

We are initiating coverage on Arête Industries with a Buy rating. We are fundamentally bullish on oil and gas long term and believe the stock is attractively priced for a company with its relative growth potential. The Company's primary focus is on the Powder River Basin, one of the richest petroleum provinces in the Rocky Mountains. More than 2.7 billion barrels of recoverable oil and over 2.3 TCF gas have been discovered in about 700 fields since the discovery of the giant Salt Creek field in 1908, of which about 225 are greater than 1 MMBOE in size. One of the Company's other targeted geographic regions is the Denver-Julesburg (DJ) Basin, a rich deposit of oil and natural gas located in northeast Colorado and extending into Wyoming and Nebraska. For more than 30 years, this area has been one of the country's most important oil and natural gas producing basins.

The Company's wells are strategically positioned to take advantage of the significant in-place oil and gas reserves. Based on the Company's current drilling schedule, we expect revenue growth of 98% on a 3-year CAGR from 2011 through 2014. This growth rate assumes drilling costs of only \$1.9 million in 2011 and \$5.15 million in 2012. This growth rate also assumes a flat \$75 per barrel of oil net of differential costs and a \$4 Mmcf of natural gas, which we believe to be conservative given the commodity markets and growing global demand for fossil fuels.

The Company benefits greatly from the guidance and leadership of Mr. Charles B. Davis, a Director and industry veteran with over 25 years of experience in the oil and gas industry. Since 1988, Mr. Davis was President of DNR Oil & Gas, Inc., running the day to day operations for 150 to 200 wells and was closely involved in exploration activities. His oil and gas experience is complemented by Mr. Donald Prosser's successful track record in business development and finance.

Among Arête Industries' other investment positives are its tight capital structure with only 7.7 million shares outstanding. In addition, Arête management intends to move the Company to a listed exchange in the near future, which will increase liquidity and institutional buying interest in the stock.

In summary, the Company is participating in several exciting oil and gas plays with vast reserves lead by an industry veteran with over 25 years of experience. Our 12-month weighted average price target of \$17.41 per share is based on a net \$75 per barrel selling price. A sustained oil price in excess of \$90 per barrel would likely add to our estimate and raise our price target over the next 12-months. We believe that an investment in ARET shares represents a novel opportunity for speculative investors to participate in the Powder River Basin and DJ Basin oil and gas plays.

II. CORPORATE STRATEGY

Overview

Arête's primary focus is on the Powder River Basin. Although the Company is currently concentrating this rich basin, it is not limited to any single geographic area because it wants to remain flexible and intends to strategically pursue acquisition opportunities in other geographic regions as they present themselves. The Company intends to focus its exploration activities in large new or developing plays that provide it with the opportunity to acquire undeveloped acreage positions for future drilling operations. Arête's drilling program will attempt to take advantage of the 660,062 barrels proven oil reserves under its control. Although its current drilling schedule does not target drilling for natural gas, the Company has 12,832,822 McF of proven natural gas reserves under its control, with another 3,600,974 McF of probable and 6,720,041 McF of possible natural gas reserves. As such, depending on access to capital and the price of natural gas, it has a vast amount of untapped natural gas under its control without acquiring any additional acreage from which to increase production.

Drilling Plan

The Company intends to drill and complete approximately 12 additional wells during 2011 with a cost of \$1.9 million with *annualized* production of 95,040 BOE.

Expected 2011 Drilling Plans:

- Five wells in the Big Bow Field;
- Two wells in Smokey Creek;
- Three wells in the Walsh Field, and
- Two wells in School Creek.

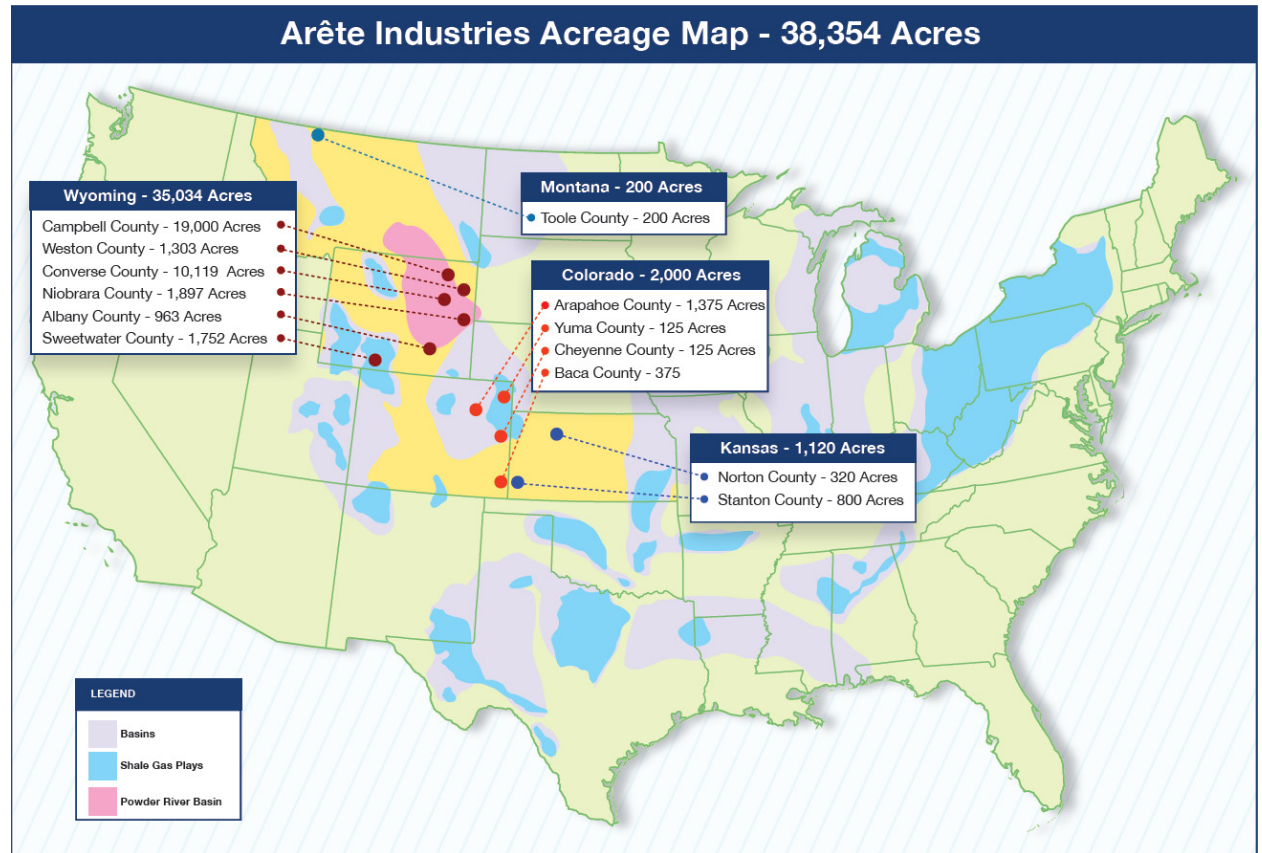
During 2012, the Company expects to drill ten School Creeks wells with a cost of \$5.15 million with *annualized* production of 334,800 BOE.

Beyond 2013, the drilling schedule is less clear. The future beyond 2012 depends on access to capital and the ability to identify attractive drilling opportunities.

III. LEASEHOLD POSITIONS

Overview

The Company’s properties located in Wyoming, Colorado, Kansas, and Montana have significant upside potential and can produce significantly higher revenue than projected.



Summary

State	Basin	County	Field	Acrees	Spacing Units
Wyoming	Powder River	Converse		10,119	640
Wyoming	Powder River	Weston		1,303	640
Wyoming	Powder River	Campbell	Buff Field	2,000	320
Wyoming	Powder River	Niobrara		1,897	320
Wyoming	Powder River	Campbell	School Creek	17,000	640
Wyoming	Laramie	Albany	Rex Lake	963	320
Wyoming	Washakie	Sweetwater	Wamsutter	1,752	320
Colorado	D-J	Arapahoe	Dragon	1,375	320
Colorado	D-J	Cheyenne	Arapahoe	125	320
Colorado	D-J	Yuma	Wildhorse	125	320
Colorado	Hugoton Embayment	Baca	Greenwood/Walsh	375	320
Kansas	Salina Basin	Norton		320	320
Kansas	Hugoton Embayment	Stanton	Big Bow West	800	320
Montana	Sweetgrass Arch	Toole	Police Coulee	200	320
TOTAL				38,354	

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Wyoming

Within Wyoming, the Company has multiple projects totaling approximately 35,000 acres.

Wyodak Coal

There are 28 operated and 5 non-operated producing wells in the Wyodak Coal which is approximately 140 feet thick at an average depth of 1,000 feet. There are over 80 PUD locations and future development potential in seven additional coal formations.

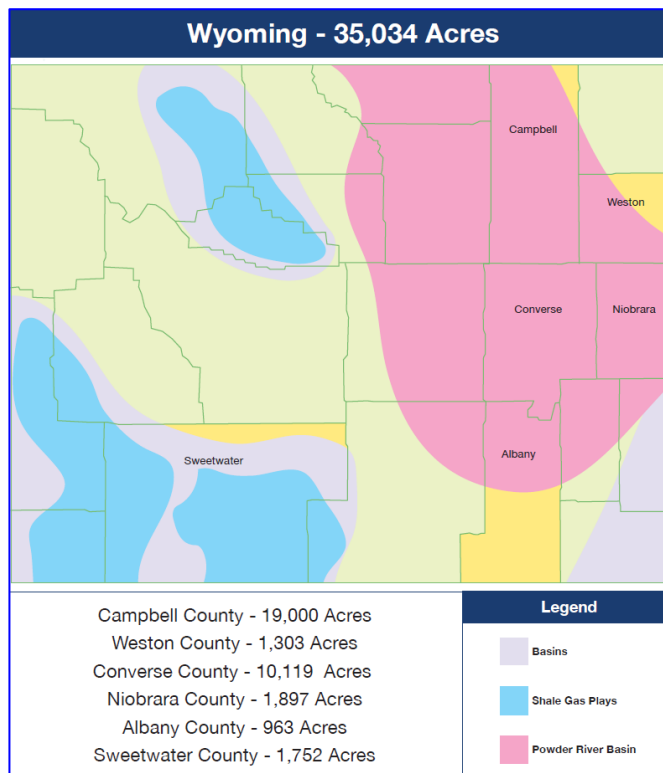
Powder River Basin

The majority of the conventional oil and gas properties in Wyoming are in the central Powder River Basin in Northeastern Wyoming, Campbell and Converse Counties, the School Creek/Gibson Draw area. This area has thirteen pumping wells and twenty-one flowing/plunger lift wells. Additional properties in the Powder River Basin include fifteen pumping wells and eleven flowing/plunger lift wells.

All the Powder River Basin properties produce sweet crude from Cretaceous formations, with the exception of two sour crude Minnelusa wells (Doud#1, Neil Federal). Increased density and horizontal drilling could increase production eight to ten times current production. Mowry Shale drilling is ongoing in the greater School Creek area, so this potential also exists for the properties.

Other Wyoming Properties

DNR operates sixteen shallow wells in the Rex Lake/Big Hollow fields in the Laramie Basin, Albany County, Southeastern Wyoming. Additional opportunities exist in this area. DNR operates one flowing gas well in Sweetwater County, Southwestern Wyoming. Offset potential as well as Coalbed methane exists on this lease.



Powder River Basin

The Powder River Basin is an area of 14 million acres in northeastern Wyoming and southeastern Montana that is roughly bounded by the Bighorn Mountains in the West, the Black Hills in the east, Montana's Cedar Ridge in the north, and Wyoming's Laramie Mountains, Casper arch, and Hartville Uplift in the South. It is approximately 120 miles east to west and 200 miles north to south.

It is both a topographic drainage and geologic structural basin. The basin is so named because it is drained by the Powder River, although it is also drained in part by the Cheyenne River, Tongue River, Bighorn River, Little Missouri River, Platte River, and their tributaries. The area is marked by grass-covered plains, rolling hills, wide, flat streambeds, and broad floodplains. The Powder River Basin is home to oil and conventional natural gas production.

The region is also a major producer of natural gas through a process called coal-bed methane extraction.

Gas produced from Powder River Basin coals is almost 100% methane. The gas is generated during the coal forming process and is trapped in the coal beds by water. In order to produce the coal gas, the formation must first be dewatered. As the water is removed from the coal, the gas is desorbed from the coal. All of the coal-bed reservoirs are low pressure and require compression in order for the gas to be delivered to a pipeline transportation system.

Natural gas wells in the Powder River Basin area typically experience sharp declines in production volume in the first several years of production. Production then stabilizes and declines more ratably over a gas well's average life of approximately eight to ten years. Other factors which influence the initial and long term productivity of the coal-bed methane wells are the depths of the coal fields, the initial gas saturation levels of the coal field and the well spacing.



Colorado

The Colorado wells are operated by DNR and consist of:

- Six pumping and one plunger lift well in the DJ Basin of Northeastern Colorado;
- Two flowing gas wells in Eastern Colorado; and
- One pumping oil well, one pumping gas well and two flowing gas wells in Southeastern Colorado.

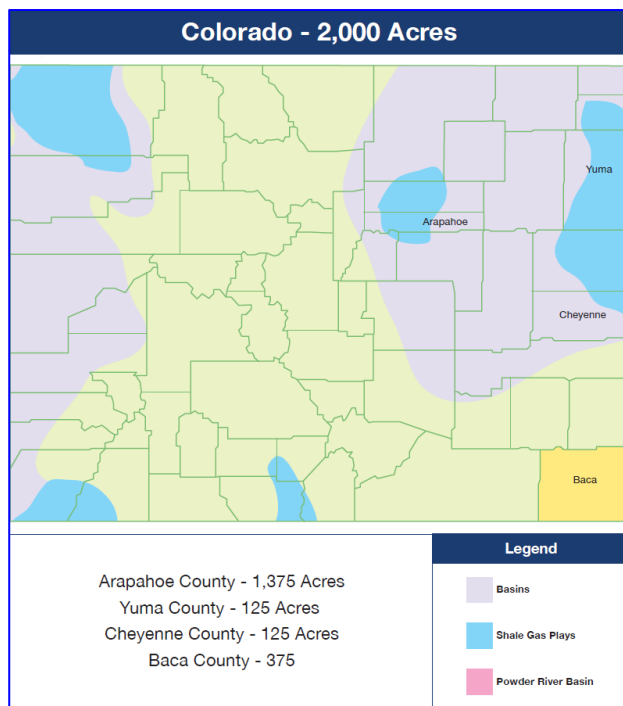
Within the Denver Basin in Colorado, the Company has approximately 1,625 acres:

- The Company controls 1,375 acres in Arapahoe County with six producing oil and gas wells, one PDNP and 7 PUD locations.
- In Yuma County, it controls 125 acres, including one producing gas well, one PDNP and one PUD location.
- In Cheyenne County, it controls 125 acres with one producing gas well, one PDNP, and one PUD location

The Denver (DJ) Basin

The Denver-Julesburg (DJ) Basin is a rich deposit of oil and natural gas located in northeast Colorado and extending into Wyoming and Nebraska. For more than 30 years, this area has been one of the country’s most important oil and natural gas producing basins.

The Niobrara Shale, located in the DJ basin, is a shale rock formation located in Northeast Colorado, Northwest Kansas, Southwest Nebraska, and Southeast Wyoming. This exciting oil shale play is being compared to the Bakken Shale which is located in North Dakota. While development is still in the early stages on the Niobrara play, the results are looking very promising. Oil & gas companies are quickly leasing land in the core zones located in Weld County Colorado, Yuma County Colorado, and even Cheyenne, Kansas. EOG has accumulated 400,000 net acres and has completed three successful wells in the Niobrara Play to date. EOG is encouraged that the first well, the Jake 2-01H drilled in Northern Colorado, produced 50,000 barrels of crude oil in the first 90 days.



The Company also controls 375 acres in Baca County with two producing gas wells and two PUD locations.

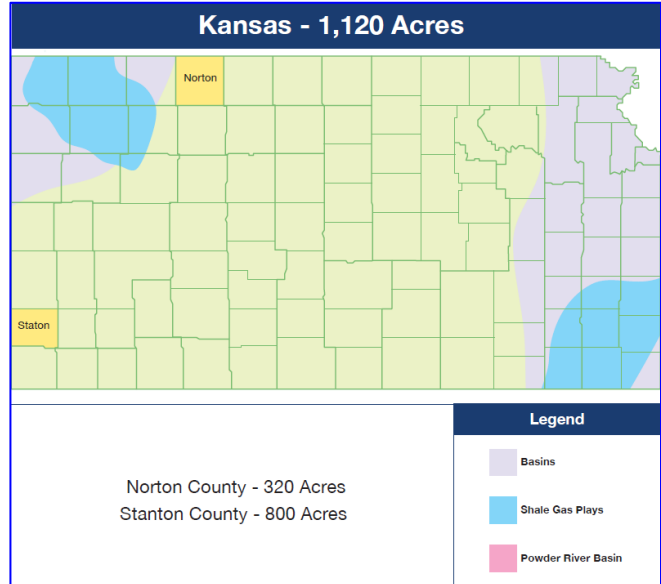
Kansas

Kansas

The Kansas properties are operated by DNR and consist of five pumping oil wells in four fields.

The Big Bow Field contains:

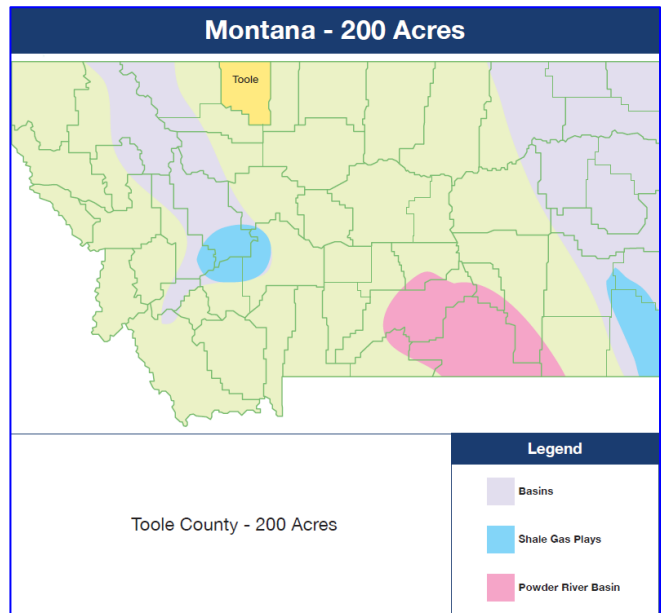
- Two pumping oil wells;
- Three shut-in wells;
- A water disposal well; and
- At least five PUD locations.



Montana

Montana

The Montana properties are operated by DNR and consist of two shallow flowing gas wells in Toole County, in Northern Montana.



V. FINANCIALS

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- Balance Sheet
- Statement of Cash Flows
- Comparison Table and Valuation Metrics

Income Statement and Financial Projections

Arete Industries Earnings Model	2010 A	2011 E	2012 E	2013 E	2014 E
Revenue					
PD Revenue		2,835,250	3,585,798	3,375,443	3,177,428
PUD Revenue		1,947,013	15,521,391	31,436,781	36,430,969
Gathering Fees	167,625	254,656	400,000	500,000	600,000
Other Income					
Total	167,625	5,036,920	19,507,189	35,312,224	40,208,397
Operating expenses					
Oil and gas operating expenses		597,783	2,388,399	4,351,528	4,951,050
Gas Gathering costs	327,591	247,754	320,000	250,000	300,000
Depreciation of Pipeline	44,229	44,220	44,220	44,220	44,220
Depletion of Oil and Gas Properties (DD&A)		1,004,275	4,012,510	7,310,567	8,317,763
Rent	3,554	17,374	50,000	50,000	60,000
Other operating expenses	719,555	1,399,234	1,352,500	1,484,000	1,689,000
Total	1,094,929	3,310,640	8,167,628	13,490,315	15,362,033
Net Income (Loss) from operations	(927,304)	1,726,279	11,339,561	21,821,909	24,846,364
EBITDA	(883,075)	2,774,775	15,396,291	29,176,696	33,208,348
Other Income					
Extinguishment of debt	121,870				
Interest Expense	(47,191)	(323,490)	(600,000)	(600,000)	(600,000)
Interest Income	13				
Total	74,692	(323,349)	(600,000)	(600,000)	(600,000)
Net Income (Loss) before Income Taxes	(852,612)	1,402,930	10,739,561	21,221,909	24,246,364
Income Taxes		(631,247)	(3,651,451)	(7,215,449)	(8,243,764)
Net Income (Loss)	(852,612)	771,684	7,088,110	14,006,460	16,002,600
Weighted income (loss) per share	(\$0.17)	\$0.10	\$0.65	\$1.08	\$1.07
Weighted average common shares	4,950,000	7,768,886	10,951,848	12,951,848	14,951,848

Note: Weighted shares in 2010 account for a 10- to-1 reverse split that occurred in 2011

Balance Sheet

Arete Industries Balance Sheet		
	Actual Audited December 31, 2010	Actual Unaudited March 31, 2011
Current assets		
Cash	15,990	322,244
Prepaid expenses	523,611	591,319
Revenue receivable	12,625	8,717
Total current assets	552,226	922,280
Furniture and equipment	277,736	266,681
TOTAL ASSETS	829,962	1,188,961
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	604,271	569,471
Accrued expenses	267,373	299,517
Accrued payroll taxes	111,690	111,690
Contracts payable	975,000	1,175,000
Notes payable & advances related parties	704,475	1,319,509
Total current liabilities	2,662,809	3,475,186
Stockholders' deficit		
Common stock	13,611,903	13,611,903
Accumulated deficit	(15,444,750)	(15,898,428)
Total Stockholders' deficit	(1,832,847)	(2,286,525)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	829,962	1,188,661

Statement of Cash Flows

Cash Flow Statement		
<i>Actual Unaudited</i>		
	31-Mar	
	2010	2011
Cash Flows from operating activities		
Net Income (loss)	(213,967)	(453,678)
Adjustments		
Depreciation and amortization	11,055	11,055
Stock and options issued for services and interest on notes		
Non cash compensation for services	92,014	132,292
Changes in assets and liabilities:		
Accounts receivable	5,321	3,908
Accounts payable	71,214	(34,800)
Accrued expenses	41,565	32,423
Total adjustments	221,169	144,878
Net cash used in operating activities	7,202	(308,800)
Cash flows from investing activities		
Purchase of property and equipment		
Net cash used in investing activities		
Cash flows from financing activities'		
Receipt of advances - related parties		620,000
Payment of advances - related parties		(4,966)
Net cash used in financing activities		615,034
Net increase (decrease) in cash	7,202	306,234
Cash at beginning of period	16,764	15,990
Cash at end of period	23,966	322,224

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Comparisons

Company Name	Ticker	Stock Price (\$)	P/E Multiple (x)	Price/Sales	Book Value	EV/Revenue	EV/EBITDA (x)	Total Market
				Multiple (x)	Multiple (x)			Cap (\$M)
Abraxas Petroleum	AXAS	3.87	N/A	6.2	9.4	7.8	38.6	370.60
Brigham Exploration	BEXP	30.37	108.6	15.6	5.9	16.1	30.6	3,570
Continental Resources	CLR	65.08	N/A	10.8	6.7	11.2	43.8	11,610
Earthstone Energy, Inc.	ESTE	15.80	19.2	3.6	1.8	3.1	8.0	27
Northern Oil and Gas	NOG	19.62	N/A	15.3	2.8	13.7	58.1	1,240
Oasis Petroleum	OAS	29.60	N/A	16.3	5.0	15.9	39.4	2,770
Voyager Oil and Gas	VOG	3.02	N/A	99.7	2.2	81.4	217.4	175
Whiting Petroleum	WLL	65.86	34.9	5.0	3.0	5.6	9.4	7,700
Average			54.2	21.6	4.6	19.3	55.6	3,433

Source: Yahoo Finance, 05/24/11

Valuation Summary

Below is a summary of the different valuation techniques and estimates.

Summary Table	Un-weighted Value \$ Per Share	Weight	Weighted Value \$ Per Share
Discounted Earnings Model	\$16.38	30.00%	\$4.91
EBITDA Analysis	\$35.76	25.00%	\$8.94
Net Asset Value Analysis	\$7.50	22.50%	\$1.69
Future Net Reserves Analysis	\$8.30	22.50%	\$1.87
Average Valuation	\$16.98	100.00%	\$17.41

We note that the Company is in the early stages of drilling out the acreage under leases. As such, these estimates may change materially due to factors such as: a change in the drilling schedule, changes in commodity prices, ability to access capital to fund drilling and land acquisitions, and changes in the reserves estimates in existing land holdings. For detail on Discounted Earnings, EBITDA multiple, Net Asset Value, and Estimated Future Net Reserves, please see the following section.

Valuation Models

Discounted Earnings Model :

Year	Earnings Estimate	Price to Earnings Multiple (X)	Future Value	Discount Rate	12-Month Target Value
2012	\$0.65	25	\$16.18	25%	\$14.47
2013	\$1.08	25	\$27.04	25%	\$19.35
2014	\$1.07	25	\$26.76	25%	\$15.32
Average:					\$16.38

Based on pro forma expectations and by applying a 25 times P/E multiple with a 25% discount rate, we calculate a 12-month target value of \$16.38 for ARET's common shares. We believe using a 25x earnings multiple is reasonable given the Company's projected revenue growth (Three year 2011-2014 CAGR of 98%) over the next three and a half years.

EBITDA Analysis

Arete Industries EBITDA Analysis			
	2012 E	2013 E	2014 E
Revenue			
PD Revenue	3,585,798	3,375,443	3,177,428
PUD Revenue	15,521,391	31,436,781	36,430,969
Gathering Fees	400,000	500,000	600,000
Total	19,507,189	35,312,224	40,208,397
Operating expenses			
Oil and gas operating expenses	2,388,399	4,351,528	4,951,050
Gas Gathering costs	320,000	250,000	300,000
Depreciation	44,220	44,220	44,220
<i>Depletion of Oil and Gas Properties</i>	4,012,510	7,310,567	8,317,763
Rent	50,000	50,000	60,000
Other operating expenses	1,352,500	1,484,000	1,689,000
Total	8,167,628	13,490,315	15,362,033
Net Income (Loss) from operations	11,339,561	21,821,909	24,846,364
EBITDA	15,396,291	29,176,696	33,208,348
Weighted average common shares	10,951,848	12,951,848	14,951,848
EBITDA per share	\$1.41	\$2.25	\$2.22
EV/EBITDA Peer Group Multiple (50% disc to peer group)	27.82	27.82	27.82
EV Valuation	\$39.11	\$62.67	\$61.79
Debt per share	\$0.51	\$0.44	\$0.38
Equity Valuation	\$38.60	\$62.23	\$61.41
12 month price target (discounted)	\$38.60	\$39.67	\$29.00
Average 12 month price target	\$35.76		

Our 12-month EBITDA price target is equivalent to approximately 27.8 times our 2012, 2013, and 2014 EBITDA estimate of \$15.4 million, \$29.2 million and \$33.2 million respectively. Although the actual present industry EV/EBITDA multiple is 55.6x, to be more conservative, we reduced the market multiple by 50%. To translate from an enterprise value valuation to an equity-based valuation, we subtract out the debt (per share) and discount 2013 and 2014 back 1.5 years and 2.5 years respectively (using a 35% discount rate) to arrive at an average equity 12-month price target of \$35.76 per share.

Net Asset Value Analysis

We calculated the net asset value for Arête Industries using an in-ground value of \$50.00/bbl oil and \$2.00/MMcf gas. We assumed a risk factor of 90% for the proven developed producing reserves, 90% for the proved undeveloped, 90% for the proved developed non-producing, 50% for the probable and 10% for the possible. Using these assumptions and the Company's current acreage under lease; we calculate that Arête Industries is worth \$7.50 per diluted share in risked net asset value.

Net Asset Valuation						
	Reserves	Risk Factor	Risk Adjusted Reserves	Value per Unit in the Ground	Value	Value per share
Proven Developed/Producing Reserves						
Natural Gas (MMcf)	1,934,789	90%	1,741,310	\$2.00	\$3,482,620	\$0.45
Oil (Mbbls)	417,003	90%	375,303	\$50.00	\$18,765,135	\$2.44
Total Proven Reserves (Mboe)	739,468	90%	665,521		\$22,247,755	\$2.89
Potentially Recoverable Resources Under Lease						
Proved Undeveloped						
Natural Gas (MMcf)	10,733,572	90%	9,660,215	\$2.00	\$19,320,430	\$2.51
Oil (Mbbls)	243,059	90%	218,753	\$50.00	\$10,937,655	\$1.42
Total Proven Reserves (Mboe)	2,031,988	90%	1,828,789		\$30,258,085	\$3.93
Proved Developed Non-Producing						
Natural Gas (MMcf)	164,461	90%	148,015	\$2.00	\$296,030	\$0.04
Oil (Mbbls)						
Total Proven Reserves (Mboe)					\$296,030	\$0.04
Undeveloped Acreage						
Probable						
Natural Gas (MMcf)	3,600,974	50%	1,800,487	\$2.00	\$3,600,974	\$0.47
Oil (Mbbls)						
					\$3,600,974	\$0.47
Possible						
Natural Gas (MMcf)	6,720,040	10%	672,004	\$2.00	\$1,344,008	\$0.17
Oil (Mbbls)						
					\$1,344,008	\$0.17
Estimated Net Asset Value					\$57,746,852	
Total Shares Outstanding					7,701,848	
Estimated Net Asset Value Per Share					\$7.50	

Future Net Reserves Analysis

Arête retained the services of an engineering firm to calculate estimated future net reserves and revenues as of March 31, 2011. According to the report, the following are the estimated net reserves of crude oil and natural gas.

Property Status:	Crude Oil BBLs	Natural Gas MCF
Proven Developed/Producing Reserves	417,003	1,934,789
Proved Undeveloped	243,059	10,733,572
Proved Developed Non-Producing	0	164,461
Total Proved Reserves	660,062	12,832,822
Probable	0	3,600,974
Possible		6,720,041
Total Proved, Probable, and Possible Reserves	660,062	23,153,837

Based on these figures the, estimated future net revenue and net present value of the revenues from estimated production of proved reserves are as follows:

Reserves	Future Net Revenue, \$	10% Discounted Future Net Revenue, \$
PDP Reserves	\$30,845,939	\$14,551,316
PDNP Reserves	\$748,765	\$404,027
PUD Reserves	\$51,358,269	\$25,956,321
Total Proved Reserves	\$82,952,973	\$40,911,664
Probable Reserves	\$8,985,698	\$5,199,565
Possible Reserves	\$25,464,233	\$17,811,941
Grand Total	\$117,402,904	\$63,923,170

Based on the 10% Discounted future net revenue value of \$63,923,170 we calculate a per share value of \$8.30.

VI. RISKS

General Risk Factors

Following are some general risk factors: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

Investment risks

Commodity price swings could impact Arête Industries. If oil prices fall below the \$40/bbl level, the economics for its projects would be stressed. Substantially all of the company's key assets are located in the Powder River Basin. If production and development in this area is interrupted (flooding, pipeline outages, etc.) this could impact the company's production, cash flow and share price negatively.

Arête Industries is a growth company and it may need to raise money to sustain its drilling program. Despite the company's best planning, logistical delays could occur and the production projections could be negatively impacted. The company is exposed to regulatory and environmentally delays in some of its operating areas.

Risk Factors Specific to Industry

The crude oil and natural gas markets are very volatile and unpredictable. The price the Company receives for its crude oil and natural gas production heavily influences its revenue, profitability, access to capital and future rate of growth. The prices it receives for production and the levels of production depend on numerous factors beyond the Company's control. These factors include, but are not limited to, the following:

- Changes in global supply and demand for crude oil and natural gas;
- The actions of the Organization of Petroleum Exporting Countries;
- The price and quantity of imports of foreign crude oil and natural gas;
- Political and economic conditions, including embargoes, in crude oil-producing countries or affecting other crude oil-producing activity;
- The level of global crude oil and natural gas exploration and production activity;
- The level of global crude oil and natural gas inventories;

- Weather conditions;
- Technological advances affecting energy consumption;
- Domestic and foreign governmental regulations;
- Proximity and capacity of crude oil and natural gas pipelines and other transportation facilities;
- The price and availability of competitors' supplies of crude oil and natural gas in captive market areas; and
- The price and availability of alternative fuels.

Lower crude oil and natural gas prices may not only decrease revenues on a per unit basis but also may reduce the amount of crude oil and natural gas that can be produced economically and therefore potentially lower reserve bookings. A substantial or extended decline in crude oil or natural gas prices may result in impairments of proved crude oil and natural gas properties and may materially and adversely affect the Company's future business, financial condition, results of operations, liquidity or ability to finance planned capital expenditures.

Risk Factors Specific to Company

Competition Risk

Oil and natural gas exploration is intensely competitive and involves a high degree of risk. In its efforts to acquire oil and natural gas producing properties, Arête Industries competes with other companies that have greater resources. Many of these companies not only explore for and produce oil and natural gas, but also conduct refining and petroleum marketing operations on a worldwide basis. The Company's ability to compete for oil and natural gas producing properties will be affected by the available capital and available information. The Company will also face competition from alternative fuel sources and technologies.

Execution Risk

As with any early stage company implementing an aggressive growth plan, Arête Industries' success or failure will depend on management's ability to execute their business plan in an efficient and timely manner.

Financial Risk

The Company is currently dependent on financing from outside investors to cover any operating losses, drilling expenses, lease acquisition costs as well as pay its \$9.5 million promissory note due in July 2011. As a result, the Company's ability to continue as a going concern could depend upon its ability to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they become due and to generate profitable operations in the future. There can be no assurance that any funding would be attainable or attainable on favorable terms, thus investors should be financially capable of losing all or a portion of their investment.

Key Management Risk

Management's skill and experience is a key determinant of success. Arête Industries, like most small companies, is heavily dependent on key management, the loss of any of which could seriously, adversely affect the company.

Micro-capital Investment Risk

Micro-capital investing involves inherent risk and investors should carefully research any company considered for investment. Micro-capital companies are usually early in their market cycle and vulnerable to significant price volatility.

Non-Specific Market Risks (Liquidity, trading rules & BD restrictions)

ARET's common stock is currently trading under \$5.00 and is quoted on the Over-the-Counter ("OTCQB"). As a result, the Company's common stock is subject to the penny stock rules by the Securities and Exchange Commission that requires brokers to provide extensive disclosure to its customers prior to executing trades in penny stocks, and as such there may be a reduction in the trading activity of its common stock. As a result, investors may find it difficult to sell their shares of the Company's common stock.

Risk Categories

WSR's investment universe revolves around undiscovered emerging growth companies that possess higher risk profiles than established "blue chip" companies. Presently WSR maintains three risk categories including growth, aggressive growth and speculative with the later assigned to higher risk companies.

Growth – Lower risk investment relative to small capital company investments with a defined revenue pattern, reasonable earnings predictability and sound balance sheet.

Aggressive Growth – Average to higher risk investment relative to small capital company investments in a high growth stage or industry. May have limited history of generating revenue or be operating in a highly competitive or rapidly changing environment. Investors must have the financial capacity to lose a significant portion of his or her investment.

Speculation - High risk investment with short or unprofitable operating history and limited revenue or earnings predictability. Companies are typically early stage and in the process of commercializing a new and often potentially disruptive technology into a large market. Investors must have the financial capacity to lose his or her entire investment.

VII. MANAGEMENT AND DIRECTORS

Officers, Directors and Key Management

<u>Name</u>	<u>Age</u>	<u>Position</u>
Donald W. Prosser	60	Chairman and Chief Executive Officer
Charles B. Davis	55	Chief Operating Officer and Director
Charles L. Gamber	60	Corporate Secretary and Director
John R. Herzog	67	Interim Chief Financial Officer and Director
William W. Stewart	49	Director

Donald W. Prosser, Chairman and Chief Executive Officer

Mr. Prosser joined Arête's Board of Directors in September 2003, serving as Director and member of the Company's Nominating, Audit, and Compensation Committees. He serves as Chairman of the Audit Committee and is the Company's Financial Expert under the Sarbanes Oxley Act.

Mr. Prosser is a professional CPA, specializing in tax and securities accounting, and has represented a number of private and public companies serving in the capacity of CPA, member of boards of directors, and as Chief Financial Officer. Mr. Prosser brings to the Company his great depth of expertise in tax and securities compliance and accounting, corporate finance transactions and turn-arounds.

From 1997 to 1999, Mr. Prosser served as CFO and Director for Chartwell International, Inc, a public company publishing high school athletic information and providing athletic recruiting services. From 1999 to 2000, he served as CFO and Director for Anything Internet, Inc. and from 2000 to 2001, served as CFO and Director for its successor, Inform Worldwide Holdings, Inc., which is a publicly traded company. From 2001 to the present, Mr. Prosser serves as CFO and Director for Net Commerce, Inc, a public company selling Internet services. From November 2002 through 2007, Mr. Prosser served as a director and CFO of VCG Holding Corp., a public company engaged in the business of acquiring, owning and operating nightclubs, which provide premium quality entertainment, restaurant, and beverage services in an up-scale environment to affluent patrons. His accounting firm performs accounting services for VCG Holding Corp.

Mr. Prosser was named to the position of Chief Financial Officer for IPTimize in July 2008. Mr. Prosser has been working as a financial consultant with IPTimize since March 2008. Mr. Prosser has been a Certified Public Accountant since 1975, and is licensed in the state of Colorado. Mr. Prosser attended the University of Colorado from 1970 to 1971 and Western State College of Colorado from 1972 to 1975, where he earned a Bachelor's degree in both accounting and history (1973) and a Masters degree in accounting - income taxation (1975).

Charles B. Davis, Chief Operating Officer and Director

Mr. Davis joined Arête's Board of Directors in October 2006. With over 25 years of experience in the oil and gas industry, Mr. Davis is a valuable addition to the board of the Company. From January 1981 to June 1983, Mr. Davis was Operations Manager for Keba Oil and Gas Co. where he was responsible for drilling, completion and producing operations.

From July 1983 to April 1986, Mr. Davis was Vice-President of operations for Private Oil Industries.

From April 1986 till August 1988, Mr. Davis did consulting work related to Well site operations. Then in August 1988 Mr. Davis joined DNR Oil & Gas Inc. as president, running the day to day operations for 150 to 200 wells, and involved in exploration activities. Mr. Davis graduated from the University of Wyoming with a Bachelor of Science Degree.

Charles L. Gamber, Corporate Secretary and Director

Mr. Gamber joined Arête's Board of Directors in September 2003, serving as an independent Director, and member of the Company's Nominating, Audit, and Compensation Committees. Mr. Gamber is currently the President and CEO of Charles L. Gamber Inc. a Colorado corporation doing Internet marketing, consulting and valuation work. Mr. Gamber has also served as a Director of Net Commerce, Inc., a public company from 2001 to the present. He has served as a consultant for Donald W. Prosser, PC and VCG Holding Corp., a publicly held company, with an emphasis in areas of organizational needs, financial projects, and business development.

Mr. Gamber has 14 years of sales and service experience in the restaurant industry. He has owned and operated All America Auto Transport of Colorado for 6 years, and was with Toyota Motor Distributors for 5 years, leaving them as a District Sales Manager to pursue his own interests. Mr. Gamber received a bachelor's degree in Business Administration from Western State College in 1973.

John R. Herzog, Interim Chief Financial Officer and Director

Mr. Herzog joined Arête's Board of Directors in September 2003, serving as Director, and member of the Company's Nominating, Audit, and Compensation Committees. From 1998 to 2000, Mr. Herzog served as Director of Billing Services for Eglobe, Inc., where he managed daily operations, conversion of the billing system, and generating an additional \$1 million per year of revenue for the company.

From 2000 to 2001, he served as Director of IT for Anything Internet, Inc. Since 2001, Mr. Herzog has been President of Business Information Systems, Inc., developing applications, consulting on software development, business systems, and programming. Mr. Herzog has also been a Senior Consultant for Ciber, Inc and Ascent Services Group from 2006 to 2009. Mr. Herzog graduated from Drexel University in 1967 with a degree in Electrical Engineering, and in 1970 with a Master's degree in Biomedical Engineering.

William W. Stewart, Director

Mr. Stewart joined the board of directors in December 2001, when he entered into an agreement with Arête to take over the operations and business plan of Eagle Capital Funding Corp. in order to pursue capital funding projects, including projects pursued by Arête and for other private and / or public ventures.

Mr. Stewart serves as a business consultant relating to corporate finance and mergers and acquisitions. Since his appointment, he has served as Company Secretary and as an outside director of Arête. From 1986 to 1994, Mr. Stewart worked in the brokerage industry as an NASD licensed registered representative. He started his career with Boettcher and Company of Denver, Colorado and left the Principal Financial Group of Denver, Colorado in 1994 to open his own small-cap investment firm, S.W.

Gordon Capital, Inc., where he has served as president from 1994 to the present. He has consulted with many small companies, both public and private, on capital formation and mergers and acquisitions.

Mr. Stewart was the CEO and co-owner of Larimer County Sports, LLC, a Colorado Limited Liability Company, which owns the Colorado Eagles Hockey team franchise of the Central Hockey League which is located in Windsor, Colorado, 40 miles north of Denver from 2001 to 2003. Mr. Stewart is President of Colorado Oil and Gas.

Currently Mr. Stewart is pursuing other opportunities in hockey and other sports related endeavors in Washington State. Mr. Stewart was born in The Pas, Manitoba, Canada. He attended the University of Denver on a full athletic scholarship where he played ice hockey from 1979 to 1983 as right wing and served as assistant captain during his senior year. Mr. Stewart graduated with a BS, Business Administration from the University of Denver in 1983, with honors as a Student Athlete (ice hockey).

VIII. CORPORATE OFFICES & ADVISORS

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Analyst Certification:

I, Paul Silver, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers.

About the Analyst:

Mr. Silver joined Wall Street Resources in 2006 as the Director of Research. He has been in the financial services industry since 1995 and began his professional career in auditing with a Big Four accounting firm in New York City. Mr. Silver made the move to Wall Street as a sell-side research analyst for two global investment banks in New York City including Salomon Smith Barney and UBS Paine Webber. At Salomon Smith Barney he was a member of the firm's research team covering REITs that was consistently ranked #1 by Institutional Investor magazine. Most recently, Mr. Silver worked for a private equity firm as its Chief Investment Strategist. Mr. Silver is a graduate of the College of William and Mary in Virginia with a BA in liberal arts and New York University's Stern Business School with an MBA in International Finance and Accounting.