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KESTREL ENERGY INC
Form 10-Q/A
August 29, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
(AMENDMENT NO. 1)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934
For the period ended MARCH 31, 2002

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: 0-9261

KESTREL ENERGY, INC.

(Exact name of registrant as specified in its charter)

COLORADO

84-0772451

(State of other jurisdiction of
incorporation or organization)

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

999 18TH STREET, SUITE 2490, DENVER, CO

80202

(Address of principal executive offices)

(Zip Code)

(303) 295-0344

(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

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of common stock, as of March 31, 2002:
8,235,200

EXPLANATORY NOTE

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This Amendment No. 1 on Form 10-Q/A revises the first and fourth paragraphs of Liquidity and Capital Resources of Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION in PART I FINANCIAL INFORMATION. Other than this Amendment, Item 2. remains in the same form as initially filed.

This Amendment No. 1 on Form 10-Q/A also revises the third paragraph of Item 2. CHANGES IN SECURITIES in PART II OTHER INFORMATION. Other than this Amendment, Item 2. remains in the same form as initially filed.

Other than the above referenced changes, the Form 10-Q, filed with the Securities and Exchange Commission on May 15, 2002, remains the same. In order to preserve the nature and character of the disclosures as of May 15, 2002, no attempt has been made in this Amendment No. 1 to modify or update such disclosures for events which occurred subsequent to the original filing.

KESTREL ENERGY, INC.

INDEX TO UNAUDITED FINANCIAL STATEMENTS

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements
 KESTREL ENERGY, INC.
 BALANCE SHEETS AS OF MARCH 31, 2002
 AND JUNE 30, 2001
 (Unaudited)

| ASSETS | March 31, 2002 | June 30, 2001 |
|---|-------------------|------------------|
| ----- | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 60,424 | \$ 119,025 |
| Accounts receivable | 149,799 | 278,834 |
| Due from related party | 21,303 | - |
| Other assets | - | 5,957 |
| Investment in related party | 570,953 | 2,130,178 |
| | ----- | ----- |
| Total current assets | 802,479 | 2,533,994 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT, AT COST: | | |
| Oil and gas properties, successful efforts method of accounting: | | |
| Unproved | 215,892 | 217,941 |
| Proved | 12,321,518 | 12,398,775 |
| Pipeline and facilities | 807,851 | 807,851 |
| Furniture and equipment | 147,855 | 143,724 |
| | ----- | ----- |
| | 13,493,116 | 13,568,291 |
| Accumulated depreciation and depletion | (3,216,643) | (3,190,983) |
| | ----- | ----- |
| Net property and equipment | 10,276,473 | 10,377,308 |
| | ----- | ----- |
| | \$ 11,078,952 | \$ 12,911,302 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| ----- | | |
| CURRENT LIABILITIES: | | |
| Accounts payable: | | |
| Trade | \$ 324,626 | \$ 121,464 |
| Related party | - | 26,397 |
| Accrued liabilities | 96,058 | 124,808 |
| Line of credit, bank | 976,000 | 1,882,000 |
| Advance from related party | 97,940 | - |
| Note Payable, Other | 255,382 | - |
| | ----- | ----- |
| Total current liabilities | 1,750,006 | 2,154,669 |

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| | | |
|--|---------------|---------------|
| STOCKHOLDERS' EQUITY: | | |
| Preferred Stock, \$1 par value; 1,000,000 shares authorized, none issued | - | - |
| Common Stock, no par value; 20,000,000 shares authorized, 8,235,200 and 7,700,200 issued and outstanding at March 31, 2002 and June 30, 2001, respectively | 19,452,023 | 19,073,023 |
| Accumulated deficit | (9,536,969) | (8,342,821) |
| Accumulated other comprehensive (loss) income | (586,108) | 26,431 |
| | ----- | ----- |
| Total stockholders' equity | 9,328,946 | 10,756,633 |
| | ----- | ----- |
| | \$ 11,078,952 | \$ 12,911,302 |
| | ===== | ===== |

See accompanying notes to financial statements.

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KESTREL ENERGY, INC.
STATEMENTS OF OPERATIONS FOR THE THREE MONTHS AND NINE MONTHS ENDED
MARCH, 2002 AND 2001
(Unaudited)

| | Three months ended March 31, | | Nine mon Ma |
|---|---------------------------------|------------|----------------|
| | 2002 | 2001 | 2002 |
| | ----- | ----- | ----- |
| REVENUE: | | | |
| Oil and gas sales | \$ 185,013 | \$ 871,761 | \$ 752,725 |
| Interest | - | 275 | 2,069 |
| Other income | 28,535 | 15,037 | 91,067 |
| Gain on sale of property | 2,258 | 7,972 | 2,258 |
| Loss on sale of available-for-sale securities | (183,417) | - | (403,947) |
| | ----- | ----- | ----- |
| TOTAL REVENUES | 32,389 | 895,045 | 444,172 |
| COSTS AND EXPENSES: | | | |
| Production and operating expenses | 144,956 | 301,484 | 535,849 |
| Exploration expenses | 24,088 | 30,485 | 138,252 |
| Dry holes, abandoned and impaired properties | - | - | 29,209 |
| Depreciation and depletion | 59,312 | 37,658 | 177,087 |
| General and administrative | 209,147 | 196,599 | 659,452 |
| Interest expense | 34,678 | 27,533 | 98,471 |
| | ----- | ----- | ----- |
| TOTAL COSTS AND EXPENSES | 472,181 | 594,759 | 1,638,320 |
| | ----- | ----- | ----- |

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| | | | |
|---|--------------|------------|----------------|
| NET INCOME (LOSS) | \$ (439,792) | \$ 301,286 | \$ (1,194,148) |
| | ----- | ----- | ----- |
| Other comprehensive loss - unrealized loss from available-for-sale securities | (20,369) | (165,000) | (586,108) |
| | ----- | ----- | ----- |
| Comprehensive income (loss) | (460,161) | 136,286 | (1,780,256) |
| | | | |
| BASIC AND DILUTED LOSS PER COMMON SHARE | \$ (.06) | \$.04 | \$ (.23) |
| | ===== | ===== | ===== |
| | | | |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | 7,718,034 | 7,680,000 | 7,705,879 |
| | ===== | ===== | ===== |

See accompanying notes to financial statements.

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KESTREL ENERGY, INC.
STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED MARCH 31, 2002 AND 2001
(Unaudited)

| | 2002 | 2001 |
|--|----------------|------------|
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ (1,194,148) | \$ 167,515 |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Dry holes, abandoned and impaired properties | 2,050 | - |
| Loss on sale of available-for-sale securities | 403,947 | - |
| Depreciation and depletion | 177,087 | 104,959 |
| Non cash compensation expense | - | 3,338 |
| Gain on sale of property and equipment, net | (2,258) | (7,972) |
| (Increase) decrease in accounts receivable | 129,035 | (158,955) |
| (Increase) decrease in due from related party | (21,303) | 524 |
| (Increase) decrease in other current assets | 5,957 | 6,904 |
| Increase (decrease) in accounts payable, trade | 203,162 | (931,256) |
| Increase (decrease) in accounts payable, related party | (26,397) | 11,216 |
| Increase (decrease) in accrued liabilities | (28,750) | 31,926 |
| | ----- | ----- |
| Net cash used in operating activities | (351,618) | (771,801) |
| | ----- | ----- |

CASH FLOWS FROM INVESTING ACTIVITIES:

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| | | |
|---|-------------|-------------|
| Capital expenditures/acquisition of properties | (78,302) | (1,200,854) |
| Proceeds from sale of securities | 544,997 | 7,972 |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | 466,695 | (1,192,882) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of common stock | 379,000 | - |
| Advance from related party | 97,940 | - |
| Net borrowings (payments) on line of credit | (906,000) | 1,859,500 |
| Proceeds from issuance of short-term debt | 255,382 | - |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | (173,678) | 1,859,500 |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (58,601) | (105,183) |
| Cash and cash equivalents at the beginning of the period | 119,025 | 502,033 |
| | ----- | ----- |
| Cash and cash equivalents at the end of the period | \$ 60,424 | \$ 396,851 |
| | ===== | ===== |
| Cash paid for interest | \$ 107,356 | \$ 77,618 |
| | ===== | ===== |

See accompanying notes to financial statements.

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KESTREL ENERGY, INC.

NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

These condensed financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2001.

In the opinion of management, the accompanying interim unaudited financial statements contain all the adjustments necessary to present fairly the financial position of the Company as of March 31, 2002, the results of operations for the periods shown in the statements of operations, and the cash flows for the periods shown in the statements of cash flows. All adjustments made are of a normal recurring nature.

2. Investment in Related Party

The investment in Victoria Petroleum, NL ("VP") Common Stock is classified as available-for-sale. Net unrealized gains and losses on the investment are recorded to Other Comprehensive Income or Loss. At March 31, 2002, the unrealized loss on the investment was \$586,108. As of June 30, 2001, there was an unrealized gain on the investment of \$26,431. The Company has sold

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32,400,000 shares since June 30, 2001, which resulted in cash proceeds of \$542,739 and a loss on sale of \$403,947. As of March 31, 2002, the Company owns 39,600,000 shares of VP.

3. Line of Credit

On February 21, 2000, the Company entered into a Line of Credit agreement with Wells Fargo Bank West N.A., which provided the Company a borrowing base of \$600,000 with interest at Wells Fargo prime rate plus 2.5%. On September 27, 2000, the Company and Wells Fargo amended the Line of Credit Agreement to provide the Company a borrowing base of \$2,000,000 and reduced the interest rate to 1.5% over prime. On May 31, 2001, Wells Fargo reduced the borrowing base to \$1,400,000. As a result of the reduction to the borrowing base, the Company was required to make scheduled principal payments to reduce the amount outstanding to \$1,400,000 by October 31, 2001, the maturity date of the line of credit. The line of credit is secured by Deeds of Trust on various oil and gas producing properties held by the Company. The Company reduced the outstanding balance to \$1,396,000 by October 31, 2001. The Company finalized the restructuring of the line of credit with Wells Fargo in November 2001, which calls for principal payments of \$1,340,000 by October 31, 2002. As of March 31, 2002, \$976,000 was outstanding on the line of credit.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2002, the Company had a working capital deficit of \$947,527. This compares to the Company's working capital of \$379,325 as of June 30, 2001. The decrease in working capital of \$1,326,852 was a result of the loss from operations offset by proceeds from the sale of securities, collection of accounts receivable and an increase in trade accounts payable. The Company was required to pay Wells Fargo Bank \$906,000 in principal payments on the line of credit during the period, which the Company funded in part by borrowing \$97,940 from Victoria Petroleum, NL, an affiliated company ("VP"), and \$255,382 a non-affiliated party. In March 2002 the Company issued 515,000 shares of stock a related party in exchange for previously recorded advances, plus accrued interest of \$360,500. In order for the Company to fund its working capital deficit, possible steps could include the sale of securities, sale of non-core oil and gas properties, sale of shares of the Company's common stock, and a reduction of general and administrative expenses.

Net cash used by operating activities was \$351,618 for the nine months ended March 31, 2002, a decrease of \$420,183 over cash used by operations of \$771,801 for the same period in 2001. A year ago, the Company used its available cash resources to pay existing accounts payable which accounts for the decrease in cash

used for the nine month period ended March 31, 2001. Accounts receivable decreased \$129,035, or 46.3%, to \$149,799 during the period as compared to an increase of \$158,955 a year ago. The decrease in accounts receivable was attributable to lower oil and gas revenues as a result of lower oil and gas prices received during the period. Accounts payable increased \$203,162, or 167%, to \$324,626 during the period versus a decrease of \$931,256, or 65%, during the same period a year ago. The increase in payables reflects the Company's liquidity problems during this period of lower oil and gas prices. Accrued liabilities decreased \$28,750, or 23%, to \$96,058 versus an increase of \$31,926

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in 2001. Accounts payable related party decreased \$26,397, or 100%, as the Company, through overhead charges, repaid the advances from an affiliated Company. The Company, as a result of the overhead charges, now has a receivable of \$21,303. The Company billed \$15,300 this quarter for overhead and personnel and approximately \$16,000 per quarter for the previous two quarters.

Net cash provided from investing activities was \$466,695 for the nine months ended March 31, 2002, versus cash used of \$1,192,882 for the same period in 2001. The increase of \$1,659,577 resulted primarily from the sale of 32,400,000 shares of VP Common Stock during the period, which generated \$542,739 in proceeds from which the Company recognized a loss of \$403,947 on the sales. The Company also realized proceeds of \$2,258 on the sale of the Oklahoma Land and Cattle well in Oklahoma. Capital expenditures for the period ended March 31, 2002 of \$78,302 included \$4,100 for office equipment, \$3,900 for equipment on the Greens Canyon 29-2 well in Wyoming, approximately \$47,800 for continued development of various coalbed methane wells in Wyoming, and \$22,500 for well equipment on the Pierce Unit in Wyoming.

Cash used by financing activities totaled \$173,678 for the nine months ended March 31, 2002 versus cash provided of \$1,859,500 a year ago. The Company made \$906,000 in principal payments to Wells Fargo Bank pursuant to the line of credit agreement of May 2001. During the fiscal third quarter the Company issued 515,000 shares of stock to a related party in exchange for previously recorded advances and accrued interest of \$360,500 by Victoria Petroleum, N.L., an affiliated company ("VP"), which had transferred the debt to the related party. The Company also issued 20,000 shares of stock to an office for \$14,000 and was advanced another \$97,940 from VP. The Company also borrowed \$255,382 from a non-affiliated party for working capital, which is scheduled to be repaid with interest on May 15, 2002.

RESULTS OF OPERATIONS

THREE MONTH PERIOD ENDED MARCH 31, 2002 AND MARCH 31, 2001

The Company reported a loss of \$439,792 or 6 cents per share, for the three month period ended March 31, 2002. This compares with income of \$301,286, or 4 cents per share, for the same period a year ago. The loss in the current period is the result of the loss on the sale of available securities incurred during the quarter which accounted for \$183,417 of the Company's loss and significantly lower oil and gas revenues from year ago levels.

The Company's revenues for the three months ended March 31, 2002 were \$32,389 compared to \$895,045 during the same period of 2001, a decrease of \$862,656. Excluding the gain on sale of property and loss on sale of securities, total revenues were \$213,548 as compared to \$887,073 a year ago. The decrease in revenues was a result of lower oil and gas revenues. Revenues from oil and gas sales were \$185,013 for the three months ended March 31, 2002, a decrease of \$686,748, or 79%, as compared to \$871,761 for the same period in 2001. The decrease in oil and gas revenues is attributable to lower oil and gas prices as compared to a year ago and lower volumes from the Turner 3-14 and 1-23 wells which were completed in November and December 2000. Other income for the three months ended March 31, 2002 increased \$13,498, or 90%, to \$28,535 from \$15,037 in the same period a year ago. Other income represents overhead charged to a related party for use of the Company's office space and personnel. Also included in this figure for the three months ended March 31, 2002 is a \$10,000 Joint Interest Billing refund on workover expenses. The Company recorded a loss of \$183,417 on sale of securities as a result of the sale of 12,500,00 shares of VP Common Stock during the quarter. See Note 2 to the financial statements.

The Company's total expenses for the third quarter ended March 31, 2002 decreased \$122,578, or 21%, to \$472,181 as compared to \$594,759 a year ago. The decrease in overall expenses is primarily due to lower production and operating

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expenses incurred during the quarter versus a year ago, offset by interest charges on the Company's line of credit.

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Production and operating expenses for the three month period decreased \$156,528, or 52%, to \$144,956 versus \$301,484 for the same period a year ago. The decrease in operating expenses for the period was due to lack of workover costs experienced on the Pierce and Burditt properties which approximated \$100,000 in the third quarter of 2001.

Exploration expenses for the quarter ended March 31, 2002 decreased \$6,397, or 21%, to \$24,088 from \$30,485 a year ago. The decrease in costs incurred for the quarter is a result of lower engineering and geological and geophysical costs.

No expense for dry holes, abandoned or impaired properties was recorded for the three months ended March 31, 2002.

Depletion expense for the three months ended March 31, 2002 was \$59,312 versus \$37,658 a year ago.

General and administrative costs for the three months ended March 31, 2002 increased \$12,548, or 6%, to \$209,147 as compared to \$196,599 for the same period a year ago. The increase in expenses was attributable to higher contract service, accounting and travel expenses.

Interest expense for the three month period ended March 31, 2002 increased \$7,145, or 26%, to \$34,678 from \$27,533 a year ago. The increase is attributable to payment of \$15,000 in interest expense to Victoria Petroleum, NL (VP), offset by a significantly lower loan balance at Wells Fargo Bank.

NINE MONTH PERIODS ENDED MARCH 31, 2002 AND MARCH 31, 2001

The Company's total revenues for the nine month period ended March 31, 2002 were \$444,172 as compared to \$1,726,649 during the same period in 2001, a decrease of \$1,282,477, or 74%. Excluding the gain on sale of property and loss on sale of securities of \$401,689, total revenues decreased \$872,816 to \$845,861 from year ago levels. Revenue from oil and gas sales was \$752,725 for the nine months ended March 31, 2002, a decrease of \$912,306, or 55%, as compared to sales of \$1,665,031 a year ago. The decrease in oil and gas sales was attributable to significantly lower oil and gas prices and volumes. Other income increased \$40,102, or 79%, to \$91,067 versus \$50,965 a year ago. This increase was attributable to the sale of tubing on the McEntire lease in Kansas for \$24,900, and \$10,000 from a joint interest billing refund. As noted above, the Company also recorded a loss on the sale of available securities of \$403,947, which resulted from the sale of 32,400,00 shares of VP Common Stock during the period.

Total expenses for the nine months ended March 31, 2002 increased \$79,186, or 5%, to \$1,638,320 versus \$1,559,134 a year ago. The increase in overall expenses is a result of higher exploration and interest expense as well as much higher depreciation and depletion despite lower general and administrative expenses.

For the nine months ended March 31, 2002, production and operating expenses decreased \$70,346, or 12%, to \$535,849 as compared to \$606,195 a year ago. The decrease in production and operating expenses was primarily due to lower production taxes and workover expenses.

For the nine months ended March 31, 2002, exploration expenses increased \$51,319, or 59%, to \$138,252 versus \$86,933 a year ago. The increase in exploration expenses reflect delay rentals paid to maintain leasehold interests

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and higher engineering costs.

Dry holes, abandoned and impaired properties expense for the nine months ended March 31, 2002 was \$29,209, which reflects the abandonment costs incurred on the McEntire lease in Kansas of \$27,717. These costs were largely offset by the sale of tubing on the lease of \$24,900 as noted above. Depletion expense for the nine months ended March 31, 2002 was \$177,087 versus \$104,959 a year ago. The increase in depletion for both the three and nine month periods ending March 31, 2002 is attributable to higher capitalized costs on the Greens Canyon and Turner wells.

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The Company's general and administrative expenses for the nine months ended March 31, 2002 decreased \$35,159, or 5%, to \$659,452 from \$694,611. The decrease in expenses was not attributable to any particular expense category, but reflects the Company's commitment to reduce expenses during this period of lower oil and gas revenues.

For the nine months ended March 31, 2002, interest expense rose \$32,035 to \$98,471 from \$66,436 a year ago. The increase reflects a higher loan balance during this nine month period versus a year ago notwithstanding the impact of generally lower interest rates.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

Until fiscal 2000, the Company did not invest in or hold market risk sensitive or interest rate sensitive instruments and the only currency exchange rate risk borne by the Company stemmed from the Company's obligations to fund its international drilling in Australian dollars. As of March 31, 2002, the Company owns 39,600,000 shares of Victoria Petroleum, N.L. ("VP") Common Stock. The investment in VP Common Stock is classified as available-for-sale. Net unrealized gains and losses on the investment are recorded to other comprehensive income or loss. The VP shares are traded publicly on the Australian stock exchange and the price for which the Company could sell its VP shares, which are quoted in prices denominated in Australian dollars, could be higher or lower than the Company's cost. The Company no longer has currency exchange risk relating to its own operations, as it no longer participates in international drilling.

FORWARD LOOKING STATEMENTS

This report includes one or more statements, which state or otherwise indicate the Company's present belief or expectation concerning future events. Such statements are forward looking statements on which investors should not rely because they are subject to a wide variety of contingencies and based on a number of assumptions, which may not prove to be true. In particular, the Company's future success is highly dependent on the success of its exploratory drilling efforts, which cannot be safely predicted. In addition, the Company is highly dependent upon prevailing prices for petroleum products, its ability to attract and retain qualified personnel, as well as other risk factors affecting business generally, such as overall economic conditions, changes in tax and other laws and the effect of actions taken by competitors and regulatory authorities.

INFLATION AND CHANGING PRICES

Inflation has not had a significant effect on the Company's results of operations. However, the constantly fluctuating price of crude oil and natural gas materially affects the Company's cash flow, either positively or negatively.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable

ITEM 2. CHANGES IN SECURITIES

The Board of Directors of the Company previously declared a dividend distribution of 10 Warrants for every 100 issued and outstanding shares of the Company's Common Stock owned by each shareholder of record at the close of business on February 4, 2000, each Warrant representing the right to purchase one share of Common Stock at \$3.125 per share until February 4, 2001 (the "Public Warrant"). January 4, 2001, the Board agreed to extend the Public Warrant exercise period from February 4, 2001 to February 4, 2002 and to reduce the exercise price to \$2.50. On January 24, 2002, the Board again agreed to extend the Public Warrant exercise period from February 4, 2002 to March 10, 2003 and to reduce the exercise price from to \$1.25.

The Company filed a registration statement on Form S-3, which was declared effective by the Securities and Exchange Commission on March 10, 2000. The Form S-3 registered the subsequent resale of the Public Warrants and the sale of the shares of Common Stock underlying the Public Warrants. The Public Warrants will now expire on March 10, 2003, unless earlier redeemed by the Company.

On January 10, 2002, the Company began a private placement offering (the "Offering") of up to 2,000,000 units consisting of one share of the Company's no par value Common Stock and one warrant (the "Private Warrant") to purchase one share of Common Stock exercisable at \$1.25 per share (the "Unit"). As part of the Offering, on March 28, 2002, the Company issued 515,000 Units to a related party in exchange for previously recorded advances and accrued interest of \$360,500 by Victoria Petroleum, N.L., an affiliated company, which had transferred the debt to the related party. 20,000 Units were also sold to an officer of the Company for \$14,000. The Offering closed on April 26, 2002, with a total of 1,409,000 Units sold for aggregate gross proceeds of \$986,300 to ten persons, including the two affiliates. An aggregate of \$7,590 was paid in commissions to two non-affiliated persons. The offer and sale of the Units were exempt from registration under Sections 4(2) and 4(6) of the Securities Act of 1933 and Rules 505 and 506 of Regulation D adopted under the Act, as well as exemptions under various state securities laws, for sales to accredited U.S. purchasers, and under Regulation S of the Act for the sales to qualified non-U.S. purchasers. None of the shares of Common Stock, Private Warrants or the shares of Common Stock underlying the Private Warrants have been registered.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

ITEM 5. OTHER INFORMATION

Not applicable

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits
 - 10.1 Stock Option Plan as of December 6, 2001
 - 10.2 Wells Fargo Term Loan Agreement
- (b) Reports on Form 8-K
 - A report on Form 8-K dated December 6, 2001 under Item 9 was filed with the Commission on December 7, 2001.

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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.

KESTREL ENERGY, INC.

(Registrant)

Date: AUGUST 22, 2002

/S/BARRY D. LASKER

Barry D. Lasker
President, Chief Executive Officer,
Principal Financial Officer and
Director

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