KESTREL ENERGY INC
Form S-3
September 04, 2002

As filed with the Securities and Exchange Commission on September 4, 2002
Registration No. 333-______

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

KESTREL ENERGY, INC.
(Exact name of registrant as specified in its charter)

Colorado	84-0772451
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

999 18th Street, Suite 2490
Denver, Colorado 80202
(303) 295-0344
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

	With copies to:
BARRY D. LASKER	S. LEE TERRY, JR., ESQ.
President	Davis Graham & Stubbs LLP
Kestrel Energy, Inc.	1550 17th Street, Suite 500
999 18th Street, Suite 2490	Denver, Colorado 80202
Denver, Colorado 80202	(303) 892-0400
(303) 295-0344	(303) 893-1379 Fax
(303) 295-1961 Fax	

(Names, addresses, including zip codes, and telephone numbers, including area codes, of agent for service)

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to a dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] ________________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] ________________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

==

	PROPOSED MAXIMUM	PROPOSED MAXIMUM

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	OFFERING PRICE PER SHARE (1)	AGGREGATE OFFERING PRICE (1)	AMOUNT OF REGISTRATION FEE
Common Stock	2,818,000	$0.32	$901,760	$82.96
Warrants(3)	1,409,000	$0.01	$14,090	$1.30
Total			$915,850	$84.26

(1) Estimated solely for purposes of calculating the registration fee. Pursuant to Rule 457(c), the offering price of $0.32 per share is the last sale price reported by The Nasdaq SmallCap Stock Market on September 3, 2002.

(2) Includes 1,409,000 shares of common stock and 1,409,000 shares of common stock underlying warrants held by the selling shareholders for subsequent resale by the selling shareholders, and pursuant to Rule 416 under the Securities Act, an indeterminate number of shares of common stock which may be issued from time to time upon exercise of such warrants by reason of adjustment of the number of shares of common stock to be issued upon such exercises under certain circumstances.

(3) Warrants registered on behalf of selling shareholders based on the fair market value of the warrants at the date of grant.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting in accordance with Section 8(a), may determine.

PROSPECTUS

KESTREL ENERGY, INC.

2,818,000 SHARES
COMMON STOCK
1,409,000 WARRANTS

This prospectus relates to 2,818,000 shares and 1,409,000 warrants that may be sold from time to time by the selling shareholders named in this prospectus. The shares offered include 1,409,000 currently outstanding shares and 1,409,000 shares for exercise of warrants issued in a private placement by us in March and April 2002. The warrants entitle the holder to purchase an equal number of our shares of common stock at an exercise price of $1.25 per share.

The offering is not being underwritten. The offering price of our common stock that may be sold by selling shareholders may be the market price for our common stock prevailing at the time of sale, a price related to the prevailing market price, a negotiated price or such other prices as the selling shareholders determine from time to time. The warrants do not have an established trading market and will not be listed on any securities exchange. The offering price for the warrants that may be sold by the selling shareholders may be the market price, if a market develops, a negotiated price or such other prices as the selling shareholders determine from time to time.

We will receive up to $1,761,250 upon the exercise of the warrants by the selling shareholders based upon an exercise price of $1.25 per share. We will not receive the proceeds from the sales of our common stock or the warrants by the selling shareholders.

Our common stock is traded on the Nasdaq SmallCap Market under the symbol "KEST." On September 3, 2002, the last reported sale price of our common stock was $0.32 per share.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 3.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

KESTREL ENERGY, INC.
999 18th Street, Suite 2490
Denver, Colorado 80202
(303) 295-0344

The date of this Prospectus is _________, 2002.

The information in this prospectus is not complete and may change. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

[INSIDE FRONT COVER]

TABLE OF CONTENTS

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The selling shareholders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of common stock.

RISK FACTORS

WE MUST CONTINUE TO EXPAND OUR OPERATIONS

Our long term success is ultimately dependent on our ability to expand our revenue base through the acquisition of producing properties and, to a much greater extent, by successful results in our exploration efforts. There is no assurance that our acquisitions will be as successful as projected. All of our exploration projects are subject to failure and the loss of our investment.

PRICES OF OIL AND NATURAL GAS FLUCTUATE WIDELY BASED ON MARKET CONDITIONS AND ANY DECLINE WILL ADVERSELY AFFECT OUR FINANCIAL CONDITION

Our revenues, operating results, cash flow and future rate of growth are very dependent upon prevailing prices for oil and gas. For the fiscal year ended June 30, 2001, approximately 94% of our revenue was from the sale of oil and gas. Historically, oil and gas prices and markets have been volatile and not predictable, and they are likely to continue to be volatile in the future. Prices for oil and gas are subject to wide fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors that are beyond our control, including:

o the strength of the United States and the global economy;

o political conditions in the Middle East and elsewhere;

o the supply and price of foreign oil and gas;

o the level of consumer product demand;

o the price and availability of alternative fuels;

o the effect of federal and state regulation of production and transportation; and

o the proximity of our natural gas to pipelines and their capacity.

WE MUST REPLACE THE RESERVES WE PRODUCE

A substantial portion of our oil and gas properties are proved undeveloped reserves and probable reserves. Successful development and production of such reserves cannot be assured. Additional drilling will be necessary in future years both to maintain production levels and to define the extent and recoverability of existing reserves. There can be no assurance that our present oil and gas wells will continue to produce at current or anticipated rates of production, that development drilling will be successful, that production of oil and gas will commence when expected, that there will be favorable markets for oil and gas which may be produced in the future or that production rates achieved in early periods can be maintained.

THERE ARE MANY RISKS IN DRILLING OIL AND GAS WELLS

The cost of drilling, completing and operating wells is often uncertain. Moreover, drilling may be curtailed, delayed or canceled as a result of many factors, including title problems, weather conditions, shortages of or delays in delivery of equipment, as well as the financial instability of well operators, major working interest owners and well servicing companies. Our gas wells may be shut-in for lack of a market until a gas pipeline or gathering system with available capacity is extended into our area. Our oil wells may have production curtailed until production facilities and delivery arrangements are acquired or developed for them.

WE FACE INTENSE COMPETITION

The oil and natural gas industry is highly competitive. We compete with others for property acquisitions and for opportunities to explore or to develop and produce oil and natural gas. We have previously formed acquisition joint ventures with several other companies, including Victoria Petroleum N.L. and other affiliates, which have allowed us more access to acquisition candidates and to share the evaluation costs with them. We face strong competition from many companies and individuals with greater capital, financial resources and larger technical staffs. We also face strong competition in procuring services from a limited pool of laborers, drilling service contractors and equipment vendors.

THE AMOUNT OF INSURANCE WE CARRY MAY NOT BE SUFFICIENT TO PROTECT US

The nature of the oil and gas business involves a variety of risks, including, but not limited to, the risks of operating hazards such as fires, explosions, cratering, blow-outs, adverse weather conditions, pollution and environmental risks, encountering formations with abnormal pressures, and, in horizontal wellbores, the increased risk of mechanical failure and collapsed holes, the occurrence of any of which could result in substantial losses to us. We, our partners, co-venturers and well operators maintain general liability insurance again some, but not all, of these risks in amounts that management believes to reasonable in accordance with customary oil and gas industry practices. The occurrence of a significant event that is not fully insured, however, could have a material adverse effect on our financial condition and results of operations.

OUR SUCCESS MAY BE DEPENDENT ON OUR ABILITY TO RETAIN BARRY LASKER AND BOB PETT AS KEY PERSONNEL

We believe that the oil and gas exploration and development and related management experience of our key personnel is important to our success. The active participation in Kestrel of Barry D. Lasker, our president, and Robert J. Pett, our chairman, is a necessity for our continued operations. We do not have any employment contracts with these individuals and we do not have key person life insurance on their lives. We compete with bigger and better financed oil and gas exploration companies for these individuals. Our future success may depend on whether we can attract, retain and motivate highly qualified personnel. We cannot assure you that we will be able to do so.

OUR RESERVES ARE UNCERTAIN

Estimating our proved reserves involves many uncertainties, including factors beyond our control. Our annual report on Form 10-K for fiscal year 2001 contained estimates of our oil and natural gas reserves and the future cash flow to be realized from those reserves for fiscal years 2001, 2000 and 1999, as prepared by independent petroleum engineers. There are uncertainties inherent in estimating quantities of proved oil and natural gas reserves since petroleum engineering is not an exact science. Estimates of commercially recoverable oil and gas reserves and of the future net cash flows from them are based upon a number of variable factors and assumptions including:

o historical production from the properties compared with production from other producing properties;

- o the effects of regulation by governmental agencies;
- o future oil and gas prices; and
- o future operating costs, severance and excise taxes, abandonment costs, development costs and workover and remedial costs.

GOVERNMENTAL REGULATION, ENVIRONMENTAL RISKS AND TAXES COULD ADVERSELY AFFECT OUR OIL AND GAS OPERATIONS IN THE UNITED STATES

Our oil and natural gas operations in the United States are subject to regulation by federal and state government, including environmental laws. To date, we have not had to expend significant resources in order to satisfy environmental laws and regulations presently in effect. However, compliance costs under any new laws and regulations that might be enacted could adversely affect our business and increase the costs of planning, designing, drilling, installing, operating and abandoning our oil and gas wells and other facilities. Additional matters that are, or have been from time to time, subject to governmental regulation include land tenure, royalties, production rates, spacing, completion procedures, water injections, utilization, the maximum price at which products could be sold, energy taxes and the discharge of materials into the environment.

THE MARKET FOR OUR STOCK MAY BE HIGHLY VOLATILE

Our stock is currently traded on the Nasdaq SmallCap Market but there has historically been a relatively low volume of trading in the shares. Consequently, the price at which the shares trade may be highly volatile. In addition, we were notified by The Nasdaq Stock Market, Inc. in a letter dated February 14, 2002, that we do not presently meet all of the requirements for continued listing on the SmallCap Market because our stock traded below the minimum $1.00 per share requirement for 30 consecutive trading days. While our stock continues to trade on the SmallCap Market today, even if the stock price does go above $1.00 for the minimum 10 consecutive trading days and eliminates the imminent threat of delisting, we cannot guarantee that our stock will continue to be traded on Nasdaq in the future. If delisting occurs, our stock could be traded on the OTC Bulletin Board as long as we continue to file our reports with the

SEC. Such a change, if it occurs, would probably reduce the liquidity of our stock which, in turn, may result in a lower trading price for the stock.

THE SALE OF THE SHARES BY THE SELLING SHAREHOLDERS COULD HAVE AN ADVERSE IMPACT ON OUR STOCK

The selling shareholders are not restricted as to the price or prices at which they may sell their shares. Sales of their shares at less than the market prices may depress the market price of our stock. Moreover, the selling shareholders are not restricted as to the number of shares which may be sold at any one time, and it is possible that a significant number of shares could be sold at the same time which may depress the market price of our stock. The outstanding shares being offered by the selling shareholders represent approximately 15.9% of our current outstanding shares.

FORWARD LOOKING STATEMENTS

This prospectus contains 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. You should also remember that these statements are made only as of the date of this prospectus and future events may cause them to be less likely to prove to be true.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly, special reports, proxy statements, and other information with the Securities and Exchange Commission. You can read and copy any document filed by us at the SEC's Public Reference Room, 450 Fifth Street N.W., Washington, D.C. 20549. You may request copies of these documents, upon payment of a duplicating fee, by writing the SEC at the address in the previous sentence. Please call the SEC at 1-800-SEC-0330 for further information on the operation of its Public Reference Room. Our SEC filings are also available on the SEC's website at http://www.sec.gov.

The SEC allows us to "incorporate by reference" information from other documents that we file with it, which means that we can disclose important information by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the following documents:

- our Annual Report on Form 10-K for the year ended June 30, 2001;

- our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2001, December 31, 2001, and March 31, 2002;

- the description of our securities contained in our registration statement on Form 8-A, File No. 0-9261, filed on May 2, 1980 pursuant to Section 12(g) of the Securities Exchange Act of 1934, and as amended by our Form S-3, File No. 33-89716, declared effective on May 12, 1995;

- the description of our warrants distributed to our shareholders in February 2000 contained in our registration statement on Form 8-A, File No. 0-09261, filed on January 20, 2000 pursuant to Section 12(g) of the Securities Exchange Act of 1934; and

- all documents and reports subsequently filed with the Commission by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the termination of this offering of common stock.

You may request a copy of any of these documents, except exhibits to the documents, unless they are specifically incorporated by reference, at no cost by telephoning us (303) 295-0344 or writing us at the following address: Melissa Temple, Kestrel Energy, Inc., 999 18th Street, Suite 2490, Denver, Colorado 80202.

You should rely only on the information contained in this document or that we have referred you to. We have not authorized anyone else to provide you with different information.

OUR BUSINESS

Our principal business is the exploration for, and development of, oil and gas reserves in the United States. In addition, we own working interests, which are expense bearing interests, in proved developed producing and proved undeveloped oil and gas leases that are not operated by us, in several areas in the United States. Proved developed reserves are oil and gas reserves which can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are oil and gas reserves which can be expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Normally we use existing working capital and cash flow for the development of our exploration and development properties. However, we have in the past obtained debt and equity financing to fund our development efforts and expect to do so again in the future.

We presently own oil and gas interests in the states of Louisiana, New Mexico, Oklahoma, South Dakota, Texas and Wyoming.

We were incorporated in Colorado on November 1, 1978 as Tanner Pruitt Exploration, Inc. In March 1995, we changed our name to Kestrel Energy, Inc. Our offices are located at 999 18th Street, Suite 2490, Denver, Colorado 80202, and our telephone number is (303) 295-0344.

RECENT DEVELOPMENTS

In May 2001, we restructured our line of credit agreement with Wells Fargo Bank West N.A. Under the prior terms, we had a borrowing base of $2,000,000 with interest paid monthly. The new agreement lowered the borrowing base to $1,400,000 and required us to reduce the principal balance on the line of credit to $1,400,000 by October 31, 2001, the maturity date of the line of credit, with interest on the outstanding balance paid monthly. As of October 31, 2001, the principal balance was $1,396,000. Wells Fargo granted us an extension to November 30, 2001 to restructure the line of credit and we subsequently agreed to extend the line of credit for a further 12 months. As of June 30, 2002, $516,000 was outstanding on the line of credit. The line of credit was secured by deeds of trust on various oil and gas producing properties held by us. On August 8, 2002, we paid $467,347.76 to Wells Fargo, which included the principal balance, all accrued interest and legal fees, and terminated our agreement with them. The funds we used to pay Wells Fargo were derived from a $500,000 loan from one of our principal shareholders, Samson Exploration N.L.

For the loan, we issued a $500,000 demand promissory note to Samson Exploration N.L. on August 6, 2002. The note matures on November 5, 2002 bearing 10% interest. We agreed to pay a financing fee of $50,000 to Samson for making the loan. The fee is payable in cash or, at Samson's election, in free trading shares of Victoria Petroleum N.L. ("VP"). The price per share of VP stock at which the financing fee would be paid is the net weighted average of the closing price of the VP shares for the five trading days immediately preceding the date we received the funds. According to the note, our obligation to pay Samson is secured by a first lien on all of our current and future assets as well as a possessory security interest in 25,000,000 shares of our VP stock (we currently own 38,000,000 shares).

USE OF PROCEEDS

We will not receive any proceeds from the sale of the common stock offered by the selling shareholders pursuant to this prospectus. We will receive proceeds if the selling shareholders exercise their warrants to purchase shares of our common stock. If all of the selling shareholders were to exercise their warrants, we would receive gross proceeds of $1,761,250. When and if we receive these funds, they will be used for general corporate purposes. As there is no assurance that any or all of the warrants will be exercised, we are unable to predict the amount to be used for such purposes.

SELLING SHAREHOLDERS

The shares offered pursuant to this prospectus have been or will be issued to the selling shareholders (or their assignees) directly by us. The selling shareholders purchased units consisting of common stock and warrants in a private placement of our securities pursuant to a Private Placement Memorandum dated January 10, 2002, under Regulation S to non-U.S. residents of Canada, Europe and Australia, and under Regulation D to U.S. residents, all of which were accredited investors as that term is defined in Rule 501(a) of the Act. We agreed to file this registration statement for the resale of the shares purchased in the offering, the sale of the warrants, and the shares underlying the warrants. We agreed to bear all out-of-pocket expenses of this offering, other than underwriting discounts and selling commissions. The selling shareholders may sell none, some, or all of the common stock offered by them as listed below.

The following table sets forth certain information with respect to the beneficial ownership of shares of our common stock by the selling shareholders as of the date of this prospectus and the number of shares which may be offered pursuant to this prospectus for the account of each of the selling shareholders or their transferees from time to time.

The table assumes:

- the exercise of all the unit warrants beneficially owned by the selling shareholder at the exercise price and for the maximum number of shares permitted as of the date of this prospectus;
- that each selling shareholder will sell all shares of common stock offered pursuant to this prospectus, but not any other shares of common stock or warrants beneficially owned by such shareholder; and
- that each selling shareholder will sell all the unit warrants to purchase common stock offered pursuant to this prospectus.

Name	Shares Owned Prior To Offering	Warrants Owned Prior To Offering	Maximum Shares To Be Sold In The Offering	Shares Owned After Offering		Warr Own Aft Offe
				Number	Percentage	
Elstree Nominees Pty Ltd	515,000	515,000(1)	1,030,000(1)	-0-	-0-	-
Samson Exploration NL	2,007,500	650,300	1,000,000	1,657,800	17.9%	150,
James Capel (Nominees) Ltd.	300,000	300,000	600,000	-0-	-0-	-
Clodene Pty Ltd	30,000	30,000	60,000	-0-	-0-	-
Douglas Hall	20,000	20,000	40,000	-0-	-0-	-
Barry D. Lasker.	360,000(2)	20,000	40,000	340,000(2)	3.6%	-
John Charles Grattan	10,000	10,000	20,000	-0-	-0-	-
Dianne Kathleen Hall	17,000	7,000	14,000	10,000		