

KESTREL ENERGY INC
Form PRE 14A
May 20, 2005

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

KESTREL ENERGY, INC.
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant): N/A

Payment of Filing Fee (Check the appropriate box):

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1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

KESTREL ENERGY, INC.
1726 Cole Boulevard, Suite 210
Lakewood, Colorado 80401
(303) 295-0344

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
To Be Held June 30, 2005
10:00 a.m.

To Our Shareholders:

We strongly encourage your attendance and participation at a Special Meeting of Shareholders of Kestrel Energy, Inc. (the "Company"), which will be held at 10:00 a.m. on Thursday, June 30, 2005, at our offices at 1726 Cole Boulevard, Suite 210, Lakewood, Colorado for the following purposes:

1. To approve, subject to final action by our Board of Directors, a 100-to-1 reverse stock split of our Common Stock, with the result that (i) holdings prior to such split of fewer than 100 shares of Common Stock will be converted to a fractional share, which will then be immediately cancelled and converted into a right to receive the cash consideration described in the attached Proxy Statement, and (ii) after these cancellations, we will have fewer than 300 record shareholders allowing us to deregister the Common Stock under the Securities Exchange Act of 1934, and thus avoid the costs associated with being a public reporting company; and
2. To transact such other business as may properly come before the meeting.

A Proxy Statement explaining the matters to be acted upon at the meeting is enclosed.

Our Board of Directors has designated May 27, 2005 as the record date for determining shareholders entitled to notice of and to vote at the Special Meeting.

OUR BOARD OF DIRECTORS WOULD LIKE TO EMPHASIZE THE IMPORTANCE OF EXERCISING YOUR RIGHTS AS SHAREHOLDERS TO VOTE ON THE PROPOSAL DESCRIBED IN THE ENCLOSED PROXY STATEMENT. THE BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE IN FAVOR OF THE REVERSE STOCK SPLIT.

YOU ARE URGED TO COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY IN THE ENVELOPE PROVIDED AS PROMPTLY AS POSSIBLE.

June 1, 2005

Timothy L. Hoops
President

SUMMARY TERM SHEET

This summary term sheet, including the “Questions and Answers About the Meeting and Transaction” section that follows, highlights selected information from the attached Proxy Statement for the 2005 Special Meeting of our shareholders and addresses the material terms of the reverse stock split described below. For a complete description of the reverse stock split, you should carefully read the Proxy Statement. This summary is qualified in its entirety by reference to the more detailed information appearing elsewhere in, or accompanying, the Proxy Statement. References to the “Company,” “us,” “we,” or “our” refer to Kestrel Energy, Inc., a Colorado corporation.

REVERSE STOCK SPLIT; “GOING DARK”; “PINK SHEET” QUOTATION

Our Board of Directors has authorized, subject to shareholder approval and subsequent final action by our Board of Directors, a 100-to-1 reverse stock split of our Common Stock. Shareholders who own fewer than 100 shares at the Effective Date of the reverse stock split will have their shares cancelled and will receive a cash payment equal to the value of the shares they hold prior to the reverse stock split, as described in more detail in the Proxy Statement. Shareholders who own 100 or more shares of our Common Stock at the Effective Date of the reverse stock split will remain shareholders, will continue to hold whole shares, and will not be entitled to receive any cash for their fractional share interests resulting from the reverse stock split. For shareholders who own one or more shares after the split, a fractional share will not be issued but the number will be rounded up to the next whole number of shares.

If consummated, the reverse stock split would be part of a “going dark” plan. Following the reverse stock split, we would have fewer than 300 holders of record and would be eligible to terminate the registration of our Common Stock under the Securities Exchange Act of 1934 (“Exchange Act”). We would then “go dark,” i.e., terminate our Exchange Act registration and become a non-reporting company for purposes of the Exchange Act. This will eliminate the significant expense required to comply with public reporting and related requirements including, but not limited to, the Sarbanes-Oxley Act of 2002. Our Board of Directors estimates that the Company’s current costs of “being public” are approximately \$250,000 per year but the burden of compliance with the forthcoming internal control audit assessment and review requirements of Section 404 of the Sarbanes-Oxley Act of 2002 may be significantly higher in the future. Moreover, while there can be no certainty as to future costs, the one time cost for creating the internal controls required by Section 404 has been estimated to be as high as \$700,000. (See “Advantages of the Proposal - Cost Savings”)

Even after we terminate our registration, our Board of Directors has concluded that the cost associated with being a reporting company is not justified by its benefits in view of the limited trading activity in our Common Stock, and has determined that the reverse stock split is fair to and in the best interests of our shareholders. See also the information in the sections “Recommendation of Our Board of Directors” and “Fairness of the Reverse Stock Split.” After we “go dark”, our shares may still be quoted in the “Pink Sheets,” albeit at a price approximately 100 times their current price on the OTC Bulletin Board (“OTCBB”) to reflect the reverse stock split. In addition, the spread between the bid and asked prices of our Common Stock may be wider than on the OTCBB and the liquidity of our shares may be less. There is no assurance, however, that there will be any Pink Sheets quotations after we “go dark” nor that, if such quotations begin they will continue for any length of time.

The members of our Board of Directors, including Neil T. MacLachlan (who is also a member of the Board of Directors of Samson Oil & Gas N.L., the controlling shareholder of the Company (“Samson”)), have indicated that they intend to vote, or cause to be voted, the shares of our Common Stock that they directly or indirectly control in favor of the reverse stock split. The shares of our Common Stock beneficially owned by directors represent approximately 8% of our outstanding voting securities. Samson, which holds approximately 77% of our outstanding shares, has also indicated that it intends to vote in favor of the reverse stock split. These percentages will not materially change after the reverse stock split. See also the information in the section “Special Interests of Affiliated Persons in the Transaction.”

The reverse stock split is not expected to affect our current business plan or operations, except for the anticipated cost and management time savings associated with termination of our public reporting company obligations. See also the information in the section “Structure of Proposal.”

If the proposal is approved by the shareholders, our Board of Directors would still retain the authority to determine whether to effect the reverse stock split, notwithstanding the authorization by shareholders. While it is unlikely that it would do so, the Board could elect to delay or even abandon the split without further action by shareholders. The date on which the reverse stock split takes effect is referred to herein as the Effective Date of the reverse stock split. Please see the section of the Proxy Statement entitled “Structure of the Proposal,” for a more detailed discussion of the procedures to effect the reverse stock split.

Our Board of Directors appointed a Special Committee of two of the Company’s Directors, Timothy L. Hoops, our President and Chief Executive Officer, and Kenneth W. Nickerson, an independent outside director, to review the fairness to shareholders of the reverse stock split and of the price to be paid to those shareholders whose shares are repurchased after the split. Our Board of Directors, with the concurrence of the Special Committee, has set the cash consideration to be paid to the shareholders with less than one share after the reverse stock split as the greater of (i) 125% of the average pre-split closing price per share of our Common Stock as quoted on the OTCBB for the forty (40) trading days preceding the first public announcement of the plan to effect a reverse stock split, or May 20, 2005 (the “Announcement Date”) or (ii) 125% of the average pre-split closing price per share over the 5 trading days preceding the Effective Date of the reverse stock split as declared by our Board of Directors (the “Purchase Price”) based on the number of pre-split shares held, which amount the Board of Directors believes to represent an amount equal to or greater than the “fair market value” per share of our Common Stock. Since the Effective Date has not yet occurred, the final Purchase Price cannot be determined at this time. On the other hand, because it is set as the greater of the two values, based on the May 20, 2005, Announcement Date and the average pre-split trading price of our Common Stock for the forty (40) trading days preceding that date, the minimum Purchase Price is \$1.42. Our Board of Directors established the formula for the Purchase Price in good faith, based upon fairness and other factors it deemed relevant, as described in more detail in the section “Fairness of the Reverse Stock Split.”

If we effect the reverse stock split our shareholders are entitled to assert dissenter's rights and obtain payment of the fair value of their shares, under Article 113 of the Colorado Business Corporation Act. See also the information in the section "Appraisal and Dissenters' Rights."

QUESTIONS AND ANSWERS ABOUT THE MEETING AND THE PROPOSAL

Q: WHAT IS THE TIME AND PLACE OF THE SPECIAL MEETING?

A: The Special Meeting will be held at the offices of the Company, 1726 Cole Boulevard, Suite 210, Lakewood, Colorado, on Thursday, June 30, 2005, at 10:00 a.m. Mountain Daylight Time.

Q: WHAT PROPOSALS WILL BE VOTED ON AT THE SPECIAL MEETING?

A: You are being asked to vote on the approval of a proposal that will provide for a 100-to-1 reverse stock split of our Common Stock and to transact such other business as may properly come before the meeting.

Q: WHAT DOES IT MEAN TO "GO DARK"?

A: If the reverse stock split is consummated, we would have fewer than 300 holders of record, and we would be eligible to terminate the registration of our Common Stock under the Exchange Act. That is referred to as "going dark" because we would no longer be required to file Form 10-K, 10-Q and 8-K with the SEC or make other Exchange Act filings or be required to comply with the requirements of the Sarbanes-Oxley Act of 2002. After "going dark," our Common Stock would no longer be quoted on the OTCBB though it might be quoted on the Pink Sheets (www.pinksheets.com) for some period of time. Additionally, shares of our Common Stock could trade in privately negotiated sales. If we are solicited by one or more qualified brokerage firms about making a market in our Common Stock and obtaining Company information so that the brokerage firm can file Form 211 with the NASD and trade the stock under Rule 15c2-11, then our Board of Directors will consider such request at the time it is made, balancing the potential benefits to shareholders of such public trading with the costs, effort and other potential liabilities involved.

Q: WHAT ARE THE BENEFITS OF "GOING DARK"?

The benefits of deregistering include:

- Eliminating the costs associated with filing documents under the Exchange Act with the SEC, including but not limited to reporting transactions of our executive officers, directors, and 10% shareholders relating to our Common Stock;
- Eliminating the costs of compliance with the Sarbanes-Oxley Act and related regulations including but not limited to Section 404, which requires companies to establish costly systems of internal controls over financial reporting and provide annual assessments of the efficacy of such controls;

- Reducing the direct and indirect costs of administering our shareholder accounts and responding to shareholder requests;
- Affording our shareholders who hold fewer than 100 shares immediately before the reverse stock split the opportunity to receive cash for their shares without having to pay brokerage commissions and other transaction costs;
- Permitting our management to focus its time and resources on our long-term business goals and objectives; and
- We will no longer be subject to the liability provisions of the Exchange Act; we will no longer be subject to the new restrictions and requirements of the Sarbanes-Oxley Act; and our officers will no longer be required to certify the accuracy of our financial statements.

Q: WHAT ARE THE DISADVANTAGES TO “GOING DARK”?

A: Some of the disadvantages include:

- Shareholders owning fewer than 100 shares of our Common Stock before the reverse stock split will not have an opportunity to liquidate their shares after the reverse stock split at a time and for a price of their own choosing; instead, they will be cashed out and will no longer be our shareholders and will not have the opportunity to participate in or benefit from any future potential appreciation in our value.
- Shareholders who will continue to be our shareholders following the reverse stock split will no longer have available all of the information regarding our operations and results that is currently available in our filings with the SEC, although, as indicated above, we may elect to provide the necessary information to a brokerage firm if a firm expresses interest in quoting our common stock in the Pink Sheets;
- Because our shares following the reverse stock split will no longer be quoted on the OTCBB and even though they may be quoted in the Pink Sheets, the effect will be a significant reduction in liquidity;
 - We may have less flexibility in attracting and retaining executives and other employees because equity-based incentives (such as stock options, if we choose to use them) tend not to be viewed as having the same value in a non-reporting company; and
- We will be less likely to be able to use our shares of our Common Stock for acquisitions of operating companies or assets.

See “Fairness of the Reverse Stock Split.”

Q: IS IT POSSIBLE THAT THE NUMBER OF HOLDERS OF RECORD WILL AGAIN REACH 300, THEREBY MAKING US A REPORTING COMPANY AGAIN?

A: Unless our assets come to exceed \$10 million at the end of a fiscal year, we would not have to re-register under the Exchange Act unless the number of holders of record of our Common Stock went above 500 holders. After the 100-to-1 reverse stock split is effected, we may choose to repurchase any shares of Common Stock proposed to be transferred by a remaining shareholder if such proposed transfer would cause the number of holders of record of our Common Stock to equal or exceed 300. The price to be paid for the shares pursuant to this option would be the fair market value for such shares as determined by our Board of Directors in good faith.

Q: WHAT ARE SOME OF THE REASONS FOR DEREGISTERING NOW?

A: Our Board of Directors believes that, for the past several years, neither the Company nor its shareholders have derived any material benefit from our status as a public reporting company. Notwithstanding the direct financial burden of being a public reporting company, the low trading volume in our Common Stock has not provided significant liquidity to our shareholders. The Company has also found it difficult to use shares of our Common Stock as consideration for acquisitions or other transactions and our Board of Directors does not believe that we will be able to do so in the foreseeable future. Finally, the low trading volume has historically resulted in substantial spikes in the trading price on the OTCBB when actual trades are made, leading to arbitrary and unfair treatment of shareholders buying and selling Common Stock. All of these factors, when considered in the context of the anticipated dramatic increases in the costs of being publicly held on account of Section 404 of the Sarbanes-Oxley Act, make this an especially appropriate time to deregister our Common Stock. See information in the section "Background of the Proposal."

Q: AS A SHAREHOLDER, WHAT WILL I RECEIVE IN THE TRANSACTION?

A: If the reverse stock split is consummated and you own fewer than 100 shares of our Common Stock on the Effective Date of the reverse stock split, you will receive a cash payment, without interest, as payment for the shares of Common Stock that you own prior to the reverse stock split and you will cease to be our shareholder. Our Board of Directors, with the concurrence of the Special Committee, has set the cash consideration to be paid to the shareholders with less than one share after the reverse stock split to be the greater of (i) 125% of the average pre-split closing price per share of our Common Stock as quoted on the OTCBB for the 40 trading days preceding the first public announcement of the plan to effect a reverse stock split, or May 20, 2005 (the "Announcement Date") or (ii) 125% of the average pre-split closing price per share over the 5 trading days preceding the Effective Date of the reverse stock split as declared by our Board of Directors (the "Purchase Price") based on the number of pre-split shares held, which amount the Board of Directors believes to represent an amount equal to or greater than the "fair market value" per share of our Common Stock. Since the Effective Date has not yet occurred, the final Purchase Price cannot be determined at this time. On the other hand, because it is set as the greater of the two values, based on the May 20, 2005, Announcement Date and the average pre-split trading price of our Common Stock for the forty (40) trading days preceding that date, the minimum Purchase Price is \$1.42. Our Board of Directors established the formula for the Purchase Price in good faith, based upon fairness and other factors it deemed relevant, as described in more detail in the section "Fairness of the Reverse Stock Split." If you own 100 or more shares of our Common Stock immediately prior to the Effective Date, you will continue to be our shareholder and you will not receive any cash payment for your shares in connection with the transaction. If and to the extent that the reverse split would cause you to receive more than one whole share and a fractional share of our stock, you will not receive a fractional share but the amount of shares you actually receive will be rounded up to the next whole share.

Q: IF I OWN FEWER THAN 100 SHARES, IS THERE ANY WAY I CAN CONTINUE TO BE A SHAREHOLDER AFTER THE TRANSACTION?

A: If you currently own fewer than 100 shares of our Common Stock, you can continue to be our shareholder after the Effective Date of the reverse stock split by purchasing, in the open market or in private purchases, enough additional shares to cause you to own a minimum of 100 shares in a single account immediately prior to the Effective Date. However, we cannot assure you that any shares will be available for purchase prior to the Effective Date.

Q: IS THERE ANYTHING I CAN DO TO TAKE ADVANTAGE OF THE OPPORTUNITY TO RECEIVE CASH FOR MY SHARES AS A RESULT OF THE TRANSACTION IF I CURRENTLY OWN MORE THAN 100 SHARES?

A: If you currently own 100 or more shares, you can receive cash for shares you own as of the Effective Date of the reverse stock split if you reduce your ownership of our Common Stock to fewer than 100 shares by selling such shares in the open market or otherwise transferring them. However, we cannot assure you that any purchaser for your shares will be available prior to the Effective Date.

Q: WHAT HAPPENS IF I OWN A TOTAL OF 100 OR MORE SHARES BENEFICIALLY, BUT I HOLD FEWER THAN 100 SHARES OF RECORD IN MY NAME AND FEWER THAN 100 SHARES WITH MY BROKER IN "STREET NAME"?

A: An example of this would be that you have 40 shares registered in your own name with our transfer agent and you have 60 shares registered with your broker in "street name." Accordingly, you are the beneficial owner of a total of 100 shares, but you do not own 100 shares of record or beneficially in the same name. If this is the case, as a result of the transaction, you would receive cash for the 40 shares you hold of record. You will also receive cash for the 60 shares held in street name if your broker or other nominee accepts our offer for beneficial owners of fewer than 100 shares of our Common Stock held in the broker's or nominee's name to receive cash for fractional shares. You can avoid this result by consolidating your holdings of 100 or more shares in a single account.

Q: WHAT ARE THE FEDERAL INCOME TAX CONSEQUENCES OF THE TRANSACTION TO ME?

A: Shareholders who do not receive any cash as a result of the reverse stock split should not recognize any gain or loss as a result of the reverse stock split. For shareholders who will continue to be our shareholders after the transaction, their tax basis and holding period in the shares of our Common Stock should remain unchanged after the reverse stock split. Shareholders who will be paid cash for their shares of our Common Stock as a result of this transaction will generally recognize capital gain or loss for federal income tax purposes. Such gain or loss will be measured by the difference between the cash received by such shareholder and the aggregate adjusted tax basis of the shares of Common Stock held. While we do not purport to provide personal tax advice to any shareholder, a summary of the material tax consequences of the reverse stock split can be found in the section "Federal Income Tax Consequences."

Q: AM I ENTITLED TO DISSENTERS' RIGHTS?

A: Yes, under the Colorado Business Corporation Act, those shareholders whose fractional shares are cancelled and repurchased after the reverse stock split are entitled to dissenters' rights in connection with the reverse stock split. See also the information in the section "Appraisal and Dissenters' Rights."

Q: WHAT IS THE VOTING RECOMMENDATION OF OUR BOARD OF DIRECTORS?

A: Our Board of Directors has determined that the reverse stock split is advisable and in the best interests of our shareholders. Our Board of Directors has therefore unanimously approved the reverse stock split and recommends that you vote "FOR" approval of this matter at the Special Meeting. See the information in the section "Recommendation of our Board of Directors."

Q: WERE THERE ADDITIONAL FACTORS SUPPORTING OUR BOARD'S DETERMINATION TO RECOMMEND APPROVAL OF THE REVERSE STOCK SPLIT?

A: In addition to considering the advantages and disadvantages of the reverse stock split discussed above, our Board of Directors based its recommendation to approve such transaction on the following:

- The determination of our Special Committee appointed in connection with the reverse stock split that the reverse stock split is in the Company's best interest and is substantively and procedurally fair to all of our shareholders, including the proposed cash consideration to be paid to our shareholders who own fewer than 100 shares of our Common Stock immediately before the Effective Date of the reverse stock split; and
- Our expectation that, in the absence of the split, attempts by our shareholders to achieve liquidity are likely to be frustrated due to the low average daily trading volume of shares of our Common Stock, where only a small number of shares could be purchased or sold without the risk of significantly increasing or decreasing the trading price.

Q: WHAT IS THE COST TO THE COMPANY TO EFFECT THE REVERSE STOCK SPLIT?

A: Based on recent trading prices of our Common Stock, we estimate that the total cash outlay of the reverse stock split will be at least \$66,000. Based on recent trading prices of our Common Stock we estimate that we will pay approximately \$30,000 to cash out fractional shares. We also expect to incur at least \$36,000 in legal fees and other costs to effect the proposed transaction. This amount could be larger or smaller if the trading price of our Common Stock changes or if the number of fractional shares that will be outstanding upon the reverse stock split changes as a result of purchases or sales of shares of our Common Stock.

Q: WHAT SHARES CAN I VOTE?

A: You may vote all shares of our Common Stock that you own as of the close of business on the record date, which is May 27, 2005. These shares include (1) shares held directly in your name as the “holder of record,” and (2) shares held for you in “street name” as the “beneficial owner” through a nominee (such as a broker or bank). Nominees may have different procedures and, if you own shares in street name, you should contact them prior to voting.

Q: SHOULD I SEND IN MY STOCK CERTIFICATES NOW?

A: No. Once the reverse stock split is consummated, if you hold less than one share of Common Stock, we will send instructions on where to send your stock certificates and how you will receive any cash payments you may be entitled to receive. Shareholders who hold one full share or more are not entitled to any cash payments and should not send in their stock certificates for reissuance as the lower, post-split, number. The old pre-split stock certificates remains valid. If a continuing shareholder does send a certificate in for reissuance as a post-split certificate, the shareholder will have to pay the transfer agent a fee for issuing a new certificate.

Q: CAN I VOTE MY SHARES WITHOUT ATTENDING THE SPECIAL MEETING?

A: Whether you hold your shares directly as the shareholder of record or beneficially in “street name,” you may direct your vote without attending the Special Meeting. You may vote by signing your proxy card or, for shares held in “street name,” by signing the voting instruction card sent to you by your broker or nominee and mailing it in the enclosed, preaddressed envelope. If you provide specific voting instructions, your shares will be voted as you instruct. If you sign but do not provide instructions, your shares will be voted as described below in “How are votes counted?”

Q: CAN I CHANGE MY VOTE?

A: You may change your proxy instructions at any time prior to the vote at the Special Meeting. For shares held directly in your name, you may change your vote by signing a new proxy card bearing a later date (which automatically revokes the earlier dated proxy card) or by attending the Special Meeting and voting in person. Attendance at the Special Meeting will not cause your previously signed proxy card to be revoked unless you specifically so request. For shares held beneficially by you in street name, you may change your vote only by submitting new voting instructions to your broker or nominee. Shares held in street name may not be voted by you at the meeting other than through voting instructions submitted to your broker or nominee before the meeting.

Q: WHAT ARE THE VOTING REQUIREMENTS TO APPROVE THE REVERSE STOCK SPLIT?

A: Approval of the reverse stock split will require the affirmative vote of a majority of the shares represented in person or by proxy at the Special Meeting.

Q: HOW ARE VOTES COUNTED?

A: You may vote “FOR,” “AGAINST” or “ABSTAIN” on the reverse stock split. If you sign and date your proxy card with no further instructions, your shares will be voted “FOR” the approval of the transaction, all in accordance with the recommendations of our Board of Directors.

Q: WHERE CAN I FIND THE VOTING RESULTS OF THE SPECIAL MEETING?

A: We will announce preliminary voting results at the Special Meeting and publish final results in a Current Report on Form 8-K filed with the SEC or by amending the Schedule 13E-3 filed in connection with the reverse stock split.

Q: IF THE REVERSE STOCK SPLIT IS APPROVED BY OUR SHAREHOLDERS, DOES IT HAVE TO BE DECLARED BY OUR BOARD OF DIRECTORS?

A: No. While our Board of Directors may proceed with the reverse stock split at any time without further notice to or action on the part of our shareholders, the Board may also determine to delay or abandon the declaration of the reverse stock split based on new or changed circumstances that, in its sole discretion, it believes merit such delay or abandonment.

Q: HOW WILL WE OPERATE AFTER THE TRANSACTION?

A: If the reverse stock split is consummated, and assuming that we have fewer than 300 holders of record after the transaction, we would deregister and no longer be subject to the reporting and related requirements under the federal securities laws that are applicable to reporting companies. As a result, our Common Stock would no longer be quoted on the OTCBB. On the other hand, we do not anticipate that the reverse stock split will have any effect in the conduct of our operations or business other than the cost savings anticipated from the discontinuation of reporting. In all other respects, our business and operations should continue as they are currently being conducted.

**KESTREL ENERGY, INC.
1726 Cole Boulevard, Suite 210
Lakewood, Colorado 80401**

PROXY STATEMENT

**Special Meeting of Shareholders
To Be Held June 30, 2005
10:00 a.m.**

The enclosed Proxy is solicited by our Board of Directors of Kestrel Energy, Inc., a Colorado corporation (the “Company”), for use at our Special Meeting of Shareholders to be held at our offices at 1726 Cole Boulevard, Suite 210, Lakewood, Colorado on Thursday, June 30, 2005 at 10:00 a.m., Mountain Daylight Time, and at any adjournment thereof. It is anticipated that this Proxy Statement and the accompanying Proxy will be mailed to our shareholders on or about June 1, 2005. References to the “Company,” “us,” “we,” or “our” refer to Kestrel Energy, Inc.

You are being asked to vote on the following proposals:

1. To approve, subject to final action by our Board of Directors, a 100-to-1 reverse stock split of our Common Stock, with the result that (i) holdings prior to such split of fewer than 100 shares of Common Stock will be converted to a fractional share, which will then be immediately cancelled and converted into a right to receive the cash consideration described in the Proxy Statement, and (ii) after these cancellations, we will have fewer than 300 record shareholders allowing us to deregister the Common Stock under the Securities Exchange Act of 1934, and thus avoid the costs associated with being a public reporting company; and
2. To transact such other business as may properly come before the meeting.

THE REVERSE STOCK SPLIT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, AND NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS PASSED UPON THE FAIRNESS OR MERITS OF THE REVERSE STOCK SPLIT OR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS PROXY STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

PROXY SOLICITATION

The expense of the Board of Directors' Proxy solicitation will be borne by us. In addition to solicitation of Proxies by use of the mails, some of our officers and directors may solicit Proxies by telephone, telegraph or personal interview without any additional compensation to them. We will reimburse brokers, nominees, custodians and other fiduciaries for expenses in forwarding Proxy materials to their principals.

PROXY REVOCATION

Any shareholder giving a Proxy on the enclosed form may revoke it at any time prior to the exercise thereof by advising our Secretary in writing at the above address, by properly executing a later dated Proxy, or by appearing in person and voting at the Special Meeting.

VOTING OF SHARES

Only holders of our outstanding shares of common stock, no par value ("Common Stock"), of record at the close of business on May 27, 2005, will be entitled to notice of, and to vote at, the Special Meeting and at any adjournment thereof. On that date, there were 10,673,200 shares of Common Stock outstanding.

Each shareholder will be entitled to one vote per share. The approval of the reverse stock split requires an affirmative vote of a majority of the shares represented in person or by proxy at the Special Meeting. Approval of a majority of unaffiliated shareholders is not required. Abstentions and broker non-votes will be counted for purposes of establishing a quorum only. Only those votes cast for the reverse stock split will be counted as votes in favor or affirmative votes. The presence at the Special Meeting, in person or by proxy, of the holders of a majority of our Common Stock outstanding on the record date will constitute a quorum for the meeting. **Our Board of Directors urges each shareholder to mark, sign and mail the enclosed Proxy card in the return envelope as promptly as possible.**

PROPOSAL NO. 1

TO EFFECT A REVERSE STOCK SPLIT

We are seeking approval of the reverse stock split described below. If approved by our shareholders, and upon subsequent final action of our Board of Directors, we will effect a 100-to-1 reverse stock split of our Common Stock. Our shareholders who own fewer than 100 shares of our Common Stock immediately prior to the Effective Date of the reverse stock split will receive a cash payment for their fractional shares and will cease to be our shareholders. Our Board of Directors, with the concurrence of the Special Committee, has set the cash consideration to be paid to the shareholders with less than one share after the reverse stock split to be the greater of (i) 125% of the average pre-split closing price per share of our Common Stock as quoted on the OTCBB for the 40 trading days preceding the first public announcement of the plan to effect a reverse stock split, or May 20, 2005 (the "Announcement Date") or (ii) 125% of the average pre-split closing price per share over the 5 trading days preceding the Effective Date of the reverse stock split as declared by our Board of Directors (the "Purchase Price") based on the number of pre-split shares held, which amount the Board of Directors believes to represent an amount equal to or greater than the "fair market value" per share of our Common Stock. Since the Effective Date has not yet occurred, the final Purchase Price cannot be determined at this time. On the other hand, because it is set as the greater of the two values, based on the May 20, 2005, Announcement Date and the average pre-split trading price of our Common Stock for the forty (40) trading days preceding that date, the minimum Purchase Price is \$1.42. Our shareholders who own 100 or more shares of our Common Stock immediately prior to the Effective Date of the reverse stock split will continue to be our shareholders and will not be entitled to receive any cash for their fractional share interests resulting from the transaction, but any fractional shares they receive will be rounded up to a whole share.

We may at some point repurchase any shares of Common Stock proposed to be transferred if the proposed transfer would cause the number of holders of record of our Common Stock to equal or exceed 300. The price to be paid for the shares pursuant to this option would be equal to the fair market value for such shares as determined by our Board of Directors in good faith.

The following discussion describes in more detail the reverse stock split and its advantages and disadvantages.

SPECIAL FACTORS

Background of the Proposal

In recent years, our Common Stock has attracted virtually no market research attention. There have been consistently low trading volumes resulting in a highly inefficient market for our shares. The low trading volumes and market capitalization have also limited our ability to use our Common Stock as a significant part of our employee compensation and incentives strategy or as consideration for acquisitions. Our Board of Directors has not raised any capital through sales of equity securities in a public offering in many years and has no plans to do so in the foreseeable future. Also, our Board of Directors has determined that given our size and the absence of sustained interest by securities research analysts and other factors, we have not enjoyed an appreciable enhancement in our Company image, which usually results from having reporting company status.

We incur substantial direct and indirect costs associated with compliance with the Exchange Act's filing and reporting requirements imposed on reporting companies. The cost of this compliance has increased significantly with the implementation of the provisions of the Sarbanes-Oxley Act, including but not limited to the significant costs and burdens of compliance with the forthcoming internal control audit requirements of Section 404 of the Sarbanes-Oxley Act, more commonly referred to in this Proxy Statement as Section 404. While the SEC has deferred for one year the application of Section 404 to non-accelerated filers like us, the cost of implementing Section 404's internal control procedures is expected to be unduly burdensome and costly for a company as small as Kestrel Energy. We will have to incur substantial costs to implement these procedures unless and until we deregister. Historically, we have also incurred substantial indirect costs as a result of, among other things, the management time expended to prepare and review our public filings.

In light of these circumstances, our Board of Directors believes that it is in our best interest to undertake the reverse stock split, enabling us to deregister our Common Stock under the Exchange Act. Deregistering will relieve us of the administrative burden, cost and competitive disadvantages associated with filing reports and otherwise complying with the requirements imposed under the Exchange Act and the Sarbanes-Oxley Act.

Our Board of Directors began considering the issues that led to this proposal during 2004. At that time, officers and directors began to evaluate whether we were achieving the benefits of being a publicly traded company when weighed against the costs of maintaining our public reporting obligations, coupled with the limited liquidity and trading volatility associated with the limited trading volume of our Common Stock. The Board also consulted with counsel about alternatives and procedures for deregistering our shares. In October 2004, at a meeting of the Audit Committee of our Board of Directors, Wheeler Wasoff P.C., our independent auditors, discussed new accounting pronouncements regarding the SEC's final rules for implementing Section 404. As a result, our management reviewed the effort and expense that would be necessary to adopt a comprehensive program to document, evaluate and test our systems of internal controls for Section 404 readiness and ultimate compliance.

Finally, on May 19, 2005, our Board of Directors agreed that the increasing costs of operating as a reporting company warranted deregistering our shares of Common Stock and that the most viable alternative to achieve that deregistration was a reverse stock split. Our Board of Directors appointed a Special Committee to review the terms of the reverse stock split and whether it is substantively and procedurally fair to all our shareholders, including the proposed cash consideration to be paid to our shareholders for whose shares are repurchased as a result of the reverse stock split.

Purpose of the Proposal

The primary purpose of the reverse stock split is to enable us to reduce the number of our holders of record to fewer than 300. This will allow:

- termination of the registration of our Common Stock under Section 12(b) of the Exchange Act and suspension of our duties to file periodic reports, proxy statements and other filings with the SEC and comply with the Sarbanes-Oxley Act;
- elimination of the administrative burden and expense of maintaining small shareholders' accounts; and
- small shareholders to liquidate their shares of our Common Stock at a fair price, without having to pay brokerage commissions, because we will pay all transaction costs related to the purchase of fractional shares after the reverse stock split.

Structure of the Proposal

Our Board of Directors has approved the submission of the reverse stock split to a vote of our shareholders and recommends the transaction for your approval. Our Board of Directors has, however, retained the final authority to determine if and when to effectuate the reverse stock split. Notwithstanding authorization of the proposed transaction by our current shareholders, our Board of Directors may elect to delay or even abandon the reverse stock split at any time without further action by our shareholders. The decision whether to delay or abandon the reverse stock split is within the sole discretion of the Board of Directors. While any such delay or abandonment is unlikely, the Board reserves the right to delay or abandon the declaration of the reverse stock split if in the Board's judgment, new or changed circumstances warrant such a decision.

As of May 27, 2005, there were 10,673,200 shares of our Common Stock outstanding and approximately 1,214 holders of record. As of such date, approximately 1,083 holders of record held fewer than 100 shares of our Common Stock. As a result, we believe that the reverse stock split will reduce the number of our holders of record to approximately 131, while reducing the number of outstanding shares to approximately 106,632 shares. The shares we purchase will be retired and the outstanding shares eliminated by the reverse stock split will become authorized but unissued shares.

Effects on Shareholders with Fewer Than 100 Shares of Common Stock

If the reverse stock split is implemented, shareholders holding fewer than 100 shares of our Common Stock immediately before the reverse stock split, sometimes referred to as “Cashed Out Shareholders,” will:

- not receive a fractional share of Common Stock as a result of the reverse stock split;
- receive cash equal to the Purchase Price of the shares of our Common Stock they held immediately before the reverse stock split in accordance with the procedures described in this Proxy Statement;
- not be required to pay any service charges or brokerage commissions in connection with the reverse stock split;
- not receive any interest on the cash payments made as a result of the reverse stock split; and
- have no further ownership interest in our Company and no further voting rights.

Cash payments to Cashed Out Shareholders as a result of the reverse stock split will be subject to income taxation if the cash payment exceeds a shareholder’s tax basis. For a discussion of the federal income tax consequences of the reverse stock split, please see the section of this Proxy Statement entitled “Feder