

FELLOWS ENERGY LTD
Form 10QSB/A
April 14, 2008

United States

Securities And Exchange Commission
Washington, D.C. 20549

Form 10-QSB/A
(Amendment No. 1)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

Commission File Number: 000-33321

Fellows Energy Ltd.
(Exact Name of Small Business Issuer as Specified in its Charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

33-0967648
(I.R.S. Employer
Identification No.)

1369 Forest Park Cir. Suite #202
Lafayette, CO 80026
(Address of Principal Executive Offices)

(303) 926-4415
(Registrant's Telephone Number, Including Area Code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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.

x Yes " No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

" Yes x No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of November 14, 2007 there were 100,000,000 shares of the issuer's \$.001 par value common stock issued and outstanding.

Transitional Small Business Disclosure Format:

" Yes x No

Table of Contents

FELLOWS ENERGY LTD.

Quarterly Report on Form 10-QSB for the
Quarterly Period Ending September 30, 2007

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements	Page
<u>Balance Sheets:</u>	
September 30, 2007 (Unaudited) and December 31, 2006	3
<u>Statements of Operations:</u>	
Three and Nine Months Ended September 30, 2007 and 2006 (Unaudited)	4
<u>Statements of Cash Flows:</u>	
Three and Nine Months Ended September 30, 2007 and 2006 (Unaudited)	5
<u>Notes to Unaudited Financial Statements:</u>	
September 30, 2007	6-15
Item 2. <u>Management Discussion and Analysis</u>	16
Item 3. <u>Controls and Procedures</u>	19
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	20
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
Item 3. <u>Defaults Upon Senior Securities</u>	20
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	20
Item 5. <u>Other Information</u>	20
Item 6. <u>Exhibits</u>	20
<u>Signatures</u>	21

Explanatory Note

This amended quarterly report on Form 10-QSB/A has been filed to comply with the filing regulations Regulation S-X and S-B, and to incorporate certain adjustments to the disclosures including those in connection with the sale of the Carbon County project.

The information contained in this Form 10-QSB/A has not been updated to reflect events and circumstances occurring since its original filing. Such matters have been or will be addressed, as necessary, in reports filed with the Commission (other than this amended report) subsequent to the date of the original filing of our annual report on Form 10-QSB.

Table of Contents

Part I: Financial Information

Item 1. Financial Statements

Fellows Energy Ltd.
Balance Sheets

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and Cash Equivalents	\$ 1,732	\$ 179,926
Interest Receivable	5,823	2,568
Accounts Receivable	202,220	80,258
Settlement Receivable	233,634	233,634
Total current assets	443,409	496,386
Proved and unproved oil & gas property	5,002,034	7,468,809
Equipment, net of \$80,727 and \$118,651 accumulated depreciation respectively	294,830	1,509,932
Deposits	28,000	
Restricted cash	160,000	160,000
Deferred financing costs	—	228,758
Total assets	\$ 5,928,273	\$ 9,863,885
Liabilities And Stockholders' Equity		
Accounts payable	\$ 418,393	\$ 359,662
Joint venture partner interest payable	—	99,167
Taxes payable	—	9,433
Interest payable current portion	273,125	205,700
Notes payable current portion	511,131	1,583,111
Convertible debenture current portion	2,253,139	1,608,433
Total current liabilities	3,455,787	3,865,506
Interest payable – net of current portion	225,552	154,819
Notes payable – related party	2,649,343	1,733,000
Notes payable – net of current portion	—	428,000
Convertible debenture – net of current portion	—	1,385,505
Stockholders' equity		
Preferred stock, \$.001 par value; 25,000,000 shares authorized; none outstanding	—	—
Common stock, \$.001 par value; 100,000,000 shares authorized and outstanding	100,000	73,447
Additional paid-in capital	20,355,488	18,484,181
Stock issuance obligation	—	61,055
Stock pledged as collateral	(79,579)	(185,684)
Accumulated deficit	(20,778,319)	(16,135,944)

Total stockholders' equity	(402,410)	2,297,055
Total liabilities and stockholders' equity	\$ 5,928,273	\$ 9,863,885

See accompanying notes to unaudited financial statements

Table of Contents

Fellows Energy Ltd.
Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue	\$	—\$ 110,643	\$	—\$ 454,484
Operating expense				
Exploration and production	3,113	125,872	3,113	690,068
General and administrative	66,360	1,065,589	1,142,856	3,060,034
Relinquishment of Property	—	—	2,075,368	—
Gross margin	(69,473)	(1,080,818)	(3,221,337)	(3,295,618)
Other income (expense)				
Interest expense	(1,467,703)	(31,439)	(2,173,759)	(108,196)
Gain on sale of project	1,555,318	—	1,555,318	—
Gain (loss) on extinguishment of debt	244,466	—	(825,717)	—
Miscellaneous income (expense)	9,506	47,072	25,935	380,435
Total other income (expense)	341,587	15,633	(1,418,223)	272,239
Income (loss) from continuing operations before income tax	272,114	(1,065,185)	(4,639,560)	(3,023,379)
Income tax expense	—	—	—	—
Deferred tax benefit	—	—	—	—
Income (loss) from continuing operations	\$ 272,114	\$ (1,065,185)	\$ (4,639,560)	\$ (3,023,379)
Revenue from discontinued operations	—	—	108,344	—
Expenses from discontinued operations	—	—	111,159	—
Income (loss) from discontinued operations	—	—	(2,815)	—
Other comprehensive income (loss)				
Unrealized holding gains on marketable securities	—	—	—	4,483
Comprehensive Income (loss)	\$ 272,114	\$ (1,065,185)	\$ (4,642,375)	\$ (3,018,896)
Basic and diluted earnings (loss) per share	\$ —\$ (0.02)	\$ (0.05)	\$ (0.05)	\$ (0.05)
Basic and diluted weighted average shares outstanding	100,000,000	65,295,510	96,290,216	60,413,244

See accompanying notes to unaudited financial statements

Table of Contents

Fellows Energy Ltd.
Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2007	2006
Cash flow from operating activities:		
Net loss	\$ (4,642,375)	\$ (3,018,896)
Adjustments to reconcile net income to net cash used in operating activities:		
Gain on sale of marketable securities	—	46,047
Gain on sale of project	(1,470,348)	—
Gain on extinguishment of debt	(244,466)	—
Debt issue costs and discount amortization	1,662,213	1,534,105
Depreciation	78,035	70,750
Expenses paid with stock issuance	1,202,618	—
Changes in operating assets and liabilities:		
Receivables	(125,217)	(134,721)
Deposits	(28,000)	579,000
Interest payable	138,158	185,700
Accounts payable & other liabilities	(110,925)	236,786
Net cash used in operating activities	(3,540,307)	(501,229)
Cash flow from investing activities:		
Proceeds from sale of marketable securities	—	355,026
Proceeds from sale of unproved oil and gas property	3,000,000	—
Unproved oil and gas property additions	(13,957)	(724,315)
Unproved oil and gas property relinquishment	2,075,368	—
Restricted Cash	—	(25,000)
Disposition of equipment	12,779	(1,182,911)
Net cash provided by (used in) investing activities	5,074,190	(1,577,200)
Cash flow from financing activities:		
Proceeds from issuance of convertible debenture	714,500	—
Discount on convertible debenture	(214,500)	—
Payments on convertible debenture	—	(815,833)
Borrowings on note payable	927,235	3,525,896
Payments on notes payable	(3,139,312)	(318,417)
Net cash provided by (used in) financing activities:	(1,712,077)	2,391,646
Net increase (decrease) in cash and equivalents	(178,194)	313,217
Cash and equivalents at beginning of period	179,926	347,558
Cash and equivalents at end of period	\$ 1,732	\$ 660,775
Supplemental Disclosure of Cash Flow and Non-cash Investing and Financing Activity:		
Income tax paid	\$ —	\$ —
Interest paid	\$ 72,533	\$ —

Non cash:

Convertible debenture paid with stock issuance	\$ 681,350	\$ 2,467,283
Stock issuance in exchange for Legal and advisory services	\$ 120,000	\$ 107,504
Fees paid with stock	\$ 1,202,618	\$ 85,000

See accompanying notes to unaudited financial statements

Table of Contents

Fellows Energy Ltd.
Notes to Unaudited Financial Statements
September 30, 2007

Note 1—Basis of Presentation and Nature of Operations

We have prepared the accompanying unaudited condensed financial statements in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB and item 310(b) of Regulation S-B. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. You should read these financial statements with our Annual Report on Form 10-KSB for the year ended December 31, 2006, as well as the 10-QSB for the quarters ended June 30, 2007, March 31, 2007, and September 30, 2006. In our opinion, we have included all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. Operating results for the quarters presented are not necessarily indicative of the results that you may expect for the full year.

We are engaged in the exploration, extraction, processing and reclamation of coal bed methane, natural gas, and oil projects in the western United States. We were incorporated in the state of Nevada on April 9, 2001 as Fuel Centers, Inc. On November 12, 2003, we changed our name to Fellows Energy Ltd. Our principal offices are located in Lafayette, Colorado.

Cash and Cash Equivalents

We consider all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents. At September 30, 2007 and 2006, we had approximately \$1,700 and \$180,000 in cash equivalents respectively.

Property and Equipment

Property and equipment is recorded at cost. Depreciation is provided for on the straight-line method over the estimated useful lives of the related assets as follows:

Furniture and fixtures: 5 years

Software: 3 to 10 years (depending on software)

Computer and office equipment: 3 to 5 years (depending on equipment)

Field equipment: 1 to 30 years (depending on equipment)

The cost of maintenance and repairs is charged to expense in the period incurred. Expenditures that increase the useful lives of assets are capitalized and depreciated over the remaining useful lives of the assets. When items are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Investment in Oil and Gas Properties

We follow the successful-efforts method of accounting for oil and gas property as defined under Statement of Financial Accounting Standards No. 19, Financial Accounting and Reporting by Oil and Gas Producing Companies ("FAS 19"). Under this method of accounting, we capitalize all property acquisition cost and cost of exploratory and development wells when incurred, pending determination of whether the well has found proved reserves. If an exploratory well does not find proved reserves, we charge to expense the cost of drilling the well. We include exploratory dry hole cost in cash flow from investing activities within the cash flow statement. We capitalize the cost of development wells whether productive or nonproductive. We had no exploratory well cost that had been suspended for one year or more as of September 30, 2007.

We expense as incurred geological and geophysical cost and the cost of carrying and retaining unproved property. We will provide depletion, depreciation and amortization (DD&A) of capitalized cost of proved oil and gas property on a field-by-field basis using the units-of-production method based upon proved reserves. In computing DD&A we take into consideration restoration, dismantlement and abandonment cost and the anticipated proceeds from equipment salvage. When applicable, we will apply the provisions of Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations, which provides guidance on accounting for dismantlement and abandonment cost.

We review our long-lived assets for impairment when events or changes in circumstances indicate that an impairment may have occurred. In the impairment test we compare the expected undiscounted future net revenue on a field-by-field basis with the related net capitalized cost at the end of each period. Should the net capitalized cost exceed the undiscounted future net revenue of a property, we will write down the cost of the property to fair value, which we will determine using discounted future net revenue. We will provide an impairment allowance on a property-by-property basis when we determine that the unproved property will not be developed.

Table of Contents

Fellows Energy Ltd.

Notes to Unaudited Financial Statements

September 30, 2007

Impairment of Unproved (Non-Producing) Property

Unproved properties will be assessed periodically, to determine whether or not they have been impaired. We will provide an impairment allowance on unproved property at any time we determine that a property will not be developed. At September 30, 2007, we consider our current property to be economically and operationally viable, in accordance with FAS 19. In determining that there was no impairment of the unproved property, we considered such factors as our commitment to bring the project into production, the cost being incurred to develop the project, and others.

Sales of Producing and Non-producing Property

We account for the sale of a partial interest in a proved property as normal retirement. We recognize no gain or loss as long as this treatment does not significantly affect the unit-of-production depletion rate. We recognize a gain or loss for all other sales of producing properties and include the gain or loss in the results of operations. We account for the sale of a partial interest in an unproved property as a recovery of cost when substantial uncertainty exists as to recovery of the cost applicable to the interest retained. We recognize a gain on the sale to the extent that the sales price exceeds the carrying amount of the unproved property. We recognize a gain or loss for all other sales of non-producing properties and include the gain or loss in the results of operations.

Asset Retirement Obligation

We follow the Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations", which requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The carrying value of a property associated with the capitalization of an asset retirement cost are included in proved oil and gas property in the balance sheets. The future cash outflows for oil and gas property associated with settling the asset retirement obligations are accrued in the balance sheets, and are excluded from ceiling test calculations. Our asset retirement obligation consists of costs related to the plugging of wells and removal of facilities and equipment on its oil and gas properties. The asset retirement liability is allocated to operating expenses using a systematic and rational method.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on the knowledge of current events and actions that we may undertake in the future, they may ultimately differ from actual results. Included in these estimates are assumptions about allowances for valuation of deferred tax assets. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. The provision for asset retirement obligation, depletion, as well as our impairment assessment on our oil and gas properties and other long lived assets are based on estimates and by their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in these estimates, in future periods, could be significant.

Revenue Recognition

We use the sales method of accounting for oil and gas revenues. Under this method, revenues are recognized based on the actual volumes of gas and oil sold to purchasers. The volume sold may differ from the volumes we are entitled to, based on our individual interest in the property. Periodically, imbalances between production and nomination volumes can occur for various reasons. In cases where imbalances have occurred, a production imbalance receivable or liability will be recorded. Costs associated with production are expensed in the period in which they are incurred.

Income Tax

Income taxes are determined using the liability method in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

Table of Contents

Fellows Energy Ltd.

Notes to Unaudited Financial Statements

September 30, 2007

Net Loss per Common Share

We have adopted Statement of Financial Accounting Standards No. 128, Earnings Per Share. Statement 128 requires the reporting of basic and diluted earnings/loss per share. We calculate basic loss per share by dividing net loss by the weighted average number of outstanding common shares during the period. We calculate diluted loss per share by dividing net loss by the weighted average number of outstanding common shares including all potentially dilutive securities during the period. For the period ended September 30, 2007, all weighted average shares outstanding have been included in the calculation, and all of our warrants have an anti-dilutive effect on per common share amounts.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income reflects changes in equity that result from transactions and economic events from non-operating sources.

New Accounting Pronouncements

Accounting for Uncertainty in Income Taxes – In June 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), an interpretation of FASB Statement No. 109, “Accounting for Income Taxes”. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires that the Company recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on recognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006, and is required as of the beginning of fiscal 2008, with the cumulative effect of the change in accounting principle recorded as an adjustment to the opening balance of deficit. We have evaluated the impact of FIN 48 on our financial statements, and have concluded that the Company has not taken any tax positions that would be less than likely of being sustained upon audit.

Fair Value Measurements – In September 2006, the FASB issued FAS No. 157, “Fair Value Measurements” (“FAS 157”), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, and is applicable beginning in the first quarter of 2008. We are currently evaluating the impact that FAS 157 will have on our financial statements.

The Fair Value Option for Financial Assets and Financial Liabilities – In February 2007, the FASB issued FAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115”, (“FAS 159”) which permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. A business entity is required to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement is expected to expand the use of fair value measurement. FAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, and is applicable beginning in the first quarter of 2008. We are currently evaluating the impact that FAS 159 will have on our financial statements.

Stock Options

On October 9, 2003, we adopted an incentive stock option plan, pursuant to which shares of our common stock are reserved for issuance to satisfy the exercise of options. The plan authorizes up to 2,000,000 shares of authorized common stock to be purchased pursuant to the exercise of options. Our stockholders approved the plan on November 10, 2003. On September 15, 2004, we granted an option for 200,000 shares to our CEO, 150,000 shares to our vice president and 125,000 shares to an employee. These options are exercisable at \$0.80 per share, the price of our stock on the grant date. The options vested 50% on the grant date and vest 50% on September 15, 2005. On October 3, 2005, we granted an option for 100,000 shares to our CEO, 150,000 to our Vice President and 175,000 and 200,000 shares to two employees respectively. On November 1, 2006, we granted an option for 300,000 shares to our Vice President of Business Development.

Effective the date of the debenture conversion price, February 15, 2007, amendment and corresponding share issuance having issued all authorized common stock as described in Note 9, the Board of Directors of the Company elected to cancel all outstanding stock options, as they had been significantly "out of the money" and worthless as valued under the black-scholes option value pricing model since December 2005. Therefore all the options in the plan have been returned to the treasury of the option plan.

Reclassifications

We have made certain reclassifications to the 2006 financial statements to conform with the 2007 financial statement presentation.

Table of Contents

Fellows Energy Ltd.

Notes to Unaudited Financial Statements

September 30, 2007

Note 2—Asset Retirement Obligation

The Company follows Statement of Financial Accounting Standards (“SFAS”) No. 143, “Accounting for Asset Retirement Obligations”, which requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The increase in carrying value of a property associated with the capitalization of an asset retirement cost is included in proved oil and gas properties in the consolidated balance sheets.

The Company depletes the amount added to proved oil and gas property costs. The future cash outflows for oil and gas properties associated with settling the asset retirement obligations that have been accrued in the accompanying balance sheets are excluded from the ceiling test calculations. The Company’s asset retirement obligation consists of costs related to the plugging of wells and removal of facilities and equipment on its oil and gas properties. The asset retirement liability is allocated to operating expenses using a systematic and rational method. At September 30, 2007, the asset retirement obligation and accretion expense were zero.

Note 3—Going Concern

As shown in the accompanying financial statements, we have incurred significant operating losses since inception and previously incurred a loss on our discontinued automotive fuel business. As of September 30, 2007, we have limited financial resources until such time that we are able to generate positive cash flow from operations. These factors raise substantial doubt about our ability to continue as a going concern. Our ability to achieve and maintain profitability and positive cash flow is dependent upon our ability to locate profitable mineral properties, generate revenue from our planned business operations, and control exploration cost. Management plans to fund its future operation by joint venturing, obtaining additional financing, and attaining additional commercial production. However, there is no assurance that we will be able to obtain additional financing from investors or private lenders, or that additional commercial production can be attained. Although management believes that production from the Carbon County and Creston projects will generate revenues sufficient to sustain the Company, no assurance can be given that such revenues will be generated from the projects.

Note 4—Deposits

In March of 2006, we acquired the interests in one producing property and maintained our interest in three other exploration oil and gas properties. The project we acquired is known as the Carbon County project. As of September 30, 2007, we have \$28,000 held on deposit for properties.

Note 5—Settlement Receivable

In August and September 2005 as part of our earn-in arrangement, we agreed to advance Mountain Oil and Gas a total of \$66,000 for purposes of working capital in exchange for oilfield and rig services. Originally this balance was classified as a deposit, and has since been reclassified as a note receivable. As indicated in the agreement, in the event that sufficient services were not performed, the amount would convert to a loan, 12% per annum, commencing February, 2006. The amount is secured with field equipment including a pumping unit, engine, treater, and rods.

In addition to the foregoing, and in October 2005, we entered into an agreement to obtain up to a 75% working interest in certain well bores owned by Mountain Oil and Gas. In connection with this, we agreed to advance

Mountain Oil and Gas a total of \$100,000 for the purpose of well bonding and working capital. This was due and payable back to the Company on December 30, 2005. Upon default, and pursuant to the Master Wellbore Agreement dated, October 19, 2005, the Company became entitled to \$160,000 of the net revenues from the 1-16A1E well effective January 1, 2006. Repayment is secured by a pumping unit located on the Dye-Hall well for the value of the working capital and well bonding. As of September 30, 2007, we had collected \$20,000 on the note. As of October 2007, we reached a settlement agreement with regards to the above note, which is further described in Note 11, Subsequent Events.

Table of Contents

Fellows Energy Ltd.

Notes to Unaudited Financial Statements

September 30, 2007

Note 6—Notes Payable

At September 30, 2007, we owed two unsecured demand notes of \$2,049,343 and \$600,000. The notes accrue interest at a rate of 10% and 18% per annum compounded daily to an entity controlled by our CEO. This notes include \$236,422 due in interest.

In 2006, we obtained \$1.25 million in industry partner financing to carry the Creston project forward. The repayment of the \$1.25 million in financing is secured with 1.6 million shares of restricted stock held in escrow and is personally guaranteed by George S. Young, our CEO, and by his private company, Diamond Oil and Gas Corporation. On May 31, 2007, we refinanced this note to lower the monthly payments from \$90,000 to \$45,000 and extend the due date until June 1, 2008. In exchange for this, we agreed to relinquish a 4% working interest in the Bacaroo project and issue 3,600,000 warrants upon an increase in the authorized common stock of the Company. The terms of the warrants remained unformalized, and as such, we could not place a value on such warrants as of June 30, 2007. Furthermore, the Company has issued all of its authorized shares and that such warrants would not be exercisable unless and until an increase in the authorized shares occurs. The interest rate on this note is 18% per annum. As of September 2007, we owed \$511,000 on the note.

In March 2006, we borrowed \$750,000 on a secured 12% note payable for a period of 36 months in exchange for a 5% overriding royalty interest in Carbon County, as well as the right to participate in any future exploration activities on the project on the basis of a 10% working interest. As of September 30, 2007, we had paid \$226,000 towards the principal and interest. On August 6, 2007, we entered into a purchase and sale agreement for the sale of our interests in the Carbon County project to our joint venture partner Thunderbird Energy Corporation. Under the terms of the sale, Thunderbird assumed the remaining liability of this note.

In May 2006, we borrowed \$500,000 at 12% interest in exchange for a 2% overriding royalty interest in Carbon County as well as 50,000 shares of common stock. As of September 30, 2007, we had paid \$170,000 towards the principal and interest. On August 6, 2007, we entered into a purchase and sale agreement for the sale of our interests in the Carbon County project to our joint venture partner Thunderbird Energy, Inc. Under the terms of the sale, Thunderbird assumed the remaining liability of this note.

Note 7—Related Party Transactions

At September 30, 2007, we owed two unsecured demand notes of \$2,049,343 and \$600,000. The notes accrue interest at a rate of 10% and 18% per annum compounded daily to an entity controlled by our CEO. This note includes \$236,422 due in interest.

In 2006, we obtained \$1.25 million in industry partner financing to carry the Creston project forward. The repayment of the \$1.25 million in financing is secured with 1.6 million shares of restricted stock held in escrow and is personally guaranteed by George S. Young, our CEO, and by his private company, Diamond Oil and Gas Corporation. On May 31, 2007, we refinanced this note to lower the monthly payments from \$90,000 to \$45,000 and extend the due date until June 1, 2008. In exchange for this, we agreed to relinquish a 4% working interest in the Bacaroo project and issue 3,600,000 warrants upon an increase in the authorized common stock of the Company. The terms of the warrants remained unformalized, and as such, we could not place a value on such warrants as of June 30, 2007. Furthermore, the Company has issued all of its authorized shares and that such warrants would not be exercisable unless and until an increase in the authorized shares occurs. The interest rate on this note is 18% per annum. As of September 2007, we owed \$511,000 on the note.

Note 8 —Common Stock

We issued 11,189,947 shares of common stock in the first quarter of 2007, for the debt service of our convertible debentures. The first quarter redemption share payments amounted to 1,075,343 shares, 118,057 shares, and 7,025,789 shares. We also issued 2,970,758 shares for warrants exercised at an average price of \$0.09 per share.

In addition to the redemption issuances above, we issued 5,454,546, 1,449,825, and 6,458,063 at \$0.09 in connection with the convertible debenture restructuring.

In January 2007, we issued 2,000,000 shares to our legal counsel as payment for services relating to the debenture restructuring as well as outstanding legal fees, which we valued at \$120,000.

We issued no stock during the second or third quarter of 2007, as all authorized stock is issued and outstanding.

Table of Contents

Fellows Energy Ltd.

Notes to Unaudited Financial Statements

September 30, 2007

Note 9 —Convertible Debentures

On June 4, 2004, we entered into a financing arrangement whereby we issued a convertible debenture with a conversion price of \$1.25 per share of common stock, subject to anti-dilution adjustments. The offering resulted in gross proceeds prior to the deduction of fees and costs, of approximately \$1,000,000, with 8% simple interest. In connection with the placement, we also issued warrants to purchase an aggregate amount of up to 400,000 shares at \$1.50 per share, which have expired. The net proceeds from the offering were used for working capital needs and other general corporate purposes. As of September 30, 2007, the debentures and accrued interest due was \$1,265,700.

On February 15, 2007, we entered into a series of transactions to restructure securities issued pursuant to securities purchase agreements dated June 17, 2005 and September 21, 2005.

Background

June 2005 Financing

On June 17, 2005, we closed a financing pursuant to a securities purchase agreement with three accredited investors, Palisades Master Fund, L.P. ("Palisades"), Crescent International Ltd. ("Crescent") and JGB Capital L.P. ("JGB") for the issuance of \$5,501,200 in face amount of debentures maturing September 17, 2007 (the "June Debentures"). The June Debentures were unsecured and we were obligated to pay 1/24th of the face amount of the debenture on the first of every month, starting October 1, 2005. Payment could be made either in the form of cash or in stock at the lower of \$0.60 per share or 80% of the volume weighted average price of our stock for the five trading days prior to the repayment date. In the event that we made the payment in cash, we paid 110% of the monthly redemption amount.

In addition, we issued warrants to the investors, expiring June 17, 2007, to purchase 4,584,334 shares of restricted common stock, exercisable at a per share of \$0.649 (the "June Warrants"). In addition, the exercise price of the June Warrants would be adjusted in the event we issued common stock at a price below the exercise price, with the exception of any securities issued pursuant to a stock or option plan adopted by our board of directors, issued in connection with the debentures issued pursuant to the securities purchase agreement, or securities issued in connection with acquisitions or strategic transactions.

If in any period of 20 consecutive trading days our stock price exceeds 250% of the June Warrants' exercise price, all of the June Warrants shall expire on the 30th trading day after we send a call notice to the June Warrant holders. If at any time after one year from the date of issuance of the June Warrants there is not an effective registration statement registering, or no current prospectus available for, the resale of the shares underlying the June Warrants, then the holder may exercise the June Warrant at such time by means of a cashless exercise.

September 2005 Financing

On September 21, 2005, we closed a financing pursuant to a securities purchase agreement with two accredited investors, Palisades and Crescent for the issuance of \$3,108,000 in face amount of debentures maturing December 20, 2007 (the "September Debentures").

The September debentures were unsecured and we were obligated to pay 1/24th of the face amount of the debenture on the first of every month, starting January 1, 2006. Payment could be made either in the form of cash or in stock at the lower of \$0.75 per share or 80% of the volume weighted average price of our stock for the five trading days prior

to the repayment date. In the event that we made the payment in cash, we paid 110% of the monthly redemption amount.

In addition, we issued warrants to the investors, expiring September 21, 2008, to purchase 2,072,000 shares of restricted common stock, exercisable at a per share of \$0.80. In addition, the exercise price of the September Warrants would be adjusted in the event we issued common stock at a price below the exercise price, with the exception of any securities issued pursuant to a stock or option plan adopted by our board of directors, issued in connection with the debentures issued pursuant to the securities purchase agreement, or securities issued in connection with acquisitions or strategic transactions.

If in any period of 20 consecutive trading days our stock price exceeds 250% of the September Warrants' exercise price, all of the September Warrants shall expire on the 30th trading day after we send a call notice to the September Warrant holders. If at any time after one year from the date of issuance of the September Warrants there is not an effective registration statement registering, or no current prospectus available for, the resale of the shares underlying the September Warrants, then the holder may exercise the September Warrant at such time by means of a cashless exercise.

Table of Contents

Fellows Energy Ltd.

Notes to Unaudited Financial Statements

September 30, 2007

Restructuring

On February 15, 2007, the following transactions took place with regards to the June Debentures and the September Debentures ("Old Debentures") and the warrants issued under the June Debentures and the September Debentures ("Old Warrants"):

- 1) JGB entered into an assignment agreement with Crescent, pursuant to which Crescent purchased from JGB the June Debentures issued to JGB. The face value of the June Debentures issued to JGB at the time of the transaction was \$333,333 and Crescent paid \$250,000 to JGB for the assignment;
- 2) We entered into a settlement agreement with JGB for the sum of \$83,333. We amended the terms of the Old Warrants held by JGB to remove the ratchet and call provisions and JGB agreed to release any shares reserved for issuance of the Old Warrants and to not exercise such Old Warrants until we obtain an increase in the authorized shares of common stock. Upon obtaining the increase in authorized shares, we agreed to issue JGB 500,000 shares of restricted common stock;
- 3) We entered into a first amendment and waiver agreement with Palisades for the amendment of the Old Debentures issued to Palisades (the "Palisades Amendment Agreement"); and
- 4) We entered into a first amendment and waiver agreement with Crescent for the amendment of the Old Debentures issued to JGB (and purchased by Crescent) and Crescent (the "Crescent Amendment Agreement" and together with the Palisades Amendment Agreement, the "Restructuring Amendments").

Palisades and Crescent agreed to amend the Old Debentures to remove the mandatory monthly liquidation provision and to amend the fixed conversion price of the Old Debentures to \$0.1375 (the "Fixed Conversion Price"). As a result, the principal amount remaining on the Old Debentures is now due and payable at maturity, unless sooner converted into shares of common stock by the investors, at the Fixed Conversion Price. Palisades and Crescent further agreed to waive any and all existing defaults under the Old Debentures.

Pursuant to the Palisades Amendment Agreement, we agreed to issue 7,025,789 shares of common stock (the "Monthly Redemption Shares") to Palisades upon conversion of \$608,433 in principal amount of the Old Debentures. Such Monthly Redemption Shares were issued as payment for the previously delinquent monthly redemptions owed to Palisades for the periods from December 1, 2006 through February 1, 2007 pursuant to the Old Debentures. These Monthly Redemption Shares were not issued while we negotiated the terms of a potential buy-out or restructuring of the Old Debentures. The Monthly Redemption Shares were previously registered for resale pursuant to resale registration statements filed with the Securities and Exchange Commission and represent the remaining shares of common stock registered thereunder for Palisades pursuant to the Old Debentures. In addition, the exercise price of the Old Warrants was reduced to \$0.0866, which Palisades exercised on a cashless basis and received an additional 2,970,758 shares of common stock which were previously registered for resale pursuant to resale registration statements filed with the Securities and Exchange Commission.

We agreed to pay Palisades a forbearance fee of \$150,000 a month, for six months. The fee, however, was immediately settled upon the issuance of 5,454,546 shares of restricted common stock. We also issued Palisades 1,449,825 shares of common stock in the form of a commitment fee for the restructuring of the Old Debentures.

In connection with the restructuring, we executed a security agreement (the “Security Agreement”) in favor of Palisades and JGB granting them a first priority security interest in all of our goods, inventory, contractual rights and general intangibles, receivables, documents, instruments, chattel paper, and intellectual property, except for our Carbon County prospect, which Palisades and JGB took a second priority interest and for our Carter Creek and Weston County prospects, which the investors were not granted any security interest. The Security Agreements state that if an event of default occurs under the Old Debentures or Security Agreement, the Investors have the right to take possession of the collateral, to operate our business using the collateral, and have the right to assign, sell, lease or otherwise dispose of and deliver all or any part of the collateral, at public or private sale or otherwise to satisfy our obligations under these agreements.

Table of Contents

Fellows Energy Ltd.

Notes to Unaudited Financial Statements

September 30, 2007

February, 2007 Financing

On February 15, 2007, we closed a financing pursuant to a securities purchase agreement with Palisades for the issuance of a \$714,500 face amount debenture maturing September 15, 2007 (the "New Debenture"). The New Debenture does not accrue interest and the investors paid \$500,000 for the New Debenture. We paid a commission of \$100,000 to HPC Capital Management (a registered broker-dealer) in connection with the transaction, resulting in net proceeds to us of \$400,000 before our legal fees. We used the net proceeds to pay our settlement agreement payment to JGB, repayment of a bridge loan to Petro Capital Securities, LLC and the remainder for general working capital purposes. We also issued HPC Capital Management 6,458,063 shares of restricted common stock and agreed to issue an additional 1,041,937 shares of restricted common stock upon obtaining an increase in our authorized shares of common stock, which shares are additional compensation for its services in connection with the transaction with the investors.

The convertible debentures are secured and are convertible into our common stock, at Palisades' option, at a fixed conversion price of \$0.1375. Based on this conversion price, the \$714,500 secured convertible debenture is convertible into 5,196,364 shares of our common stock.

In the event of default, the investors may require payment, which shall be the greater of: (A) 130% of the principal amount of the face amount of the debenture to be prepaid, or (B) the principal amount of the debenture to be prepaid, divided by the conversion price on (x) the date the default amount is demanded or otherwise due or (y) the date the default amount is paid in full, whichever is less, multiplied by the closing price on (x) the date the default amount is demanded or otherwise due or (y) the date the default amount is paid in full, whichever is greater

The conversion price of the debenture may be adjusted in certain circumstances such as if we pay a stock dividend, subdivide or combine outstanding shares of common stock into a greater or lesser number of shares, or take such other actions as would otherwise result in dilution of the investor's position.

The Company has agreed to file a registration statement with the Securities and Exchange Commission to cover the future sale by the investors of the shares issuable upon conversion of the Old and New Debentures. If the registration statement is not filed by the filing deadline or if the registration statement is not declared effective by the effective deadline, we would be required to pay liquidated damages to the investors.

Note 10—Proved and Unproved Oil and Gas Property

Carbon County Project, Utah

On September 12, 2005, we entered into an option agreement to purchase a gas field in Carbon County, Utah which was producing approximately 30 million cubic feet of natural gas per month. The field comprises 5,953 gross acres (2,440 net acres) with three gas wells currently producing and has an additional five wells drilled that are presently shut-in. Production is derived from the Ferron Sandstone formation, and the gas is marketed into the adjacent gas pipeline operated by Questar Gas Resources. The acquisition included an associated gas gathering system and a 6 mile pipeline and compression facility servicing the project and adjacent production. The field has potential for 20 additional well sites on 160 acre spacing on the undeveloped acreage. The property is adjacent to our Gordon Creek project and to the very successful Drunkards Wash field originally developed by River Gas Corp.

On March 13, 2006, we closed the acquisition of this project for a total of \$1.5 million. After several months of production and workover efforts, as of June 2007, we decided it was in the best interest of the Company to sell our ownership in the Carbon County project. The decision was made to sell this project after considering our required outstanding debenture obligations, the prospect of paying off a significant portion of our debt, as well as record a gain on the sale. Subsequently, on August 6, 2007, we entered into a purchase and sale agreement pursuant to which we sold our interests in the Carbon County project for total consideration of \$3.0 million. The purchase was consummated via the assumption of and payment on various debts owed by the Company amounting to \$2,763,000, with the remainder held as a note receivable in the amount of \$237,000. The major classes of assets and liabilities pertaining to the discontinued operations are as follows:

Table of Contents

Fellows Energy Ltd.

Notes to Unaudited Financial Statements

September 30, 2007

6/30/2007

Cash & equivalents	28,801
Receivables	130,478
Field & office equipment, net	20,915
Total Assets	180,194
Payables	180,194
Total Liabilities	180,194

Creston Project, Uintah Basin, Utah

On October 25, 2005, we announced that we had entered into a participation agreement with Mountain Oil and Gas, Inc., Creston Resources Ltd, and Homeland Gas and Oil Ltd. (collectively "Creston"), and are completing arrangements with private investors, whereby we are to supply operating expertise and program supervision to earn working interests in up to 45 producing oil wells in the Uintah Basin of Utah. We have since commenced a rework program to re-complete previously-completed zones and extend behind pipe reserves in the wells, located primarily in the Altamont-Bluebell Field. Creston will retain the current or historical production while we and the private investors will earn a variable percentage of the production increase resulting from the reworking operations. Work has commenced on two of the first four, and we plan on maintaining continuous operations until all wells have been brought to full potential.

Under the participation agreement, we are to begin reworking wells as necessary to revitalize production across the 9,000 acres that pertain to the wells. Due to the over-pressured, fractured nature of reservoir in the field, as well as the large vertical extent of potential pay zones, many of the wells have formation damage resulting from high drilling mud weights and cementing operations. These conditions have left many zones unable to produce to their potential. We will employ a variety of conventional and innovative proprietary techniques to reduce the effects of formation damage and attempt to increase oil and gas recovery.

During the first quarter of 2006, we completed the workover on the first well which commenced production at a daily rate of 100 BOE. We are now evaluating the next wells to be re-completed. In addition, we received joint venture financing arrangements with private investors to provide for \$1.25 million in funds to conduct the reworking program. The Company is now evaluating the results of the program to date prior to performing any additional work on the Creston wells. The Company is also considering working with other owners or operating companies in the area and may discontinue working with Creston in favor of working with other operators.

Weston County, Wyoming

The Weston County project is a 19,290-acre project on the east flank of the Powder River Basin. The prospect is a potential extension of an existing producing field. We are continuing our work and evaluation with JMG Exploration on permitting and other pre-drilling activities. In addition, we are targeting nearby locations with potential in the Minnelusa sandstone and Dakota channel sandstone formations.

During the second quarter of 2007, we entered into an agreement with Thunderbird Energy Corp, whereby they committed to expend \$3.5 million, over the next 24 months, in connection with the drilling and completion of three wells located on the Dakota formation. In exchange, Thunderbird will receive an additional 25% working interest in

the Weston County project. We reserve the option to commence drilling under the previous joint venture structure if Thunderbird does not commence drilling by May 31, 2008.

Gordon Creek, Utah

JMG Exploration will also drill on the 5,242-acre Gordon Creek project, which we acquired from The Houston Exploration Company for \$288,000. The Gordon Creek project is in an area of known coal resources in Carbon County in eastern Utah near other operating coal bed methane projects, such as the Drunkard's Wash Project, which our project personnel successfully drilled previously for River Gas Corporation.

Based on exploration results, JMG Exploration has indicated its intent to sell a portion of its working interest to Enterra Energy Trust in an arrangement under which JED Oil, Inc. under a development agreement with Enterra, will complete any development programs on the projects. The Company now anticipates that Thunderbird Energy Corp. (its former joint venture partner on the adjacent Carbon County project) will acquire the interests of JMG Exploration and proceed with development jointly with the Company on the Gordon Creek project in response to favorable results on the Carbon County project.

Table of Contents

Fellows Energy Ltd.

Notes to Unaudited Financial Statements

September 30, 2007

Carter Creek, Wyoming

In 2004 we purchased the 10,678-acre Carter Creek Project in the southern Powder River Basin. Although we previously contemplated drilling on the project, and we believe much of the project acreage is drill-ready, we have not yet commenced any drilling activities, and during the quarter, we dropped the project due to capital constraints. This amounted to \$2,075,368.

Overthrust, Utah and Wyoming

The Overthrust coal bed methane project was an unconventional play with 183,000 gross and 118,950 net acres targeting coal bed natural gas in southwestern Wyoming and northeastern Utah that we entered into with Quaneco, LLC in 2004. This project also had the potential for conventional oil and gas.

Bacaroo, Colorado

In 2004 we optioned the Bacaroo project in Colorado through our affiliation with Thomasson Partner Associates, Inc. We believe the project is an opportunity to establish conventional oil and gas production with comparatively inexpensive drilling in areas of established production, while other projects being reviewed offer longer term, larger potential exploration opportunities. We are acquiring acreage in the prospect prior to commencing drilling operations.

Leasing and seismic evaluation activities continue. One entire target area is now under lease, and two additional areas are now undergoing leasing. We will perform additional geologic evaluation and permitting work in preparation for drilling.

Johns Valley Project, Utah

In 2004, we acquired an agreement with Johns Valley Limited Partnership whereby we have the option to earn a 70% working interest in 25,201 acres of oil and gas leases from the Utah School and Institutional Trust Lands Administration. Due to permitting delays and other operating parameters in the field, we negotiated to restructure the potential option and the timing and amounts of our work commitments as provided under the option assignment agreement. During the fourth quarter of 2006, due to capital constraints, we determined not to pursue the option on this project and relinquished our rights related thereto.

Note 11—Subsequent Events

On October 30th, 2007, we entered into an agreement to provide for (1) the earn-in on the Divide, Pinedale and Wilkens Ridge projects; (2) the hiring of Mark S. Dolar and Ken Allen into the management, and their appointment as directors; and (3) to provide for the potential growth of the Company through a joint venture or other financing arrangement, or a potential business combination whereby we would merge with a new company, through a reverse merger with the new company. It is expected that we would continue to conduct the business of Fellows and of Dolar and would raise capital through a joint venture, or other financing, or in connection with a merger with the new company and to acquire and/or develop the assets (“Dolar Transaction”).b b

On October 19, 2007, we entered into a settlement agreement with Alpha Capital in connection with the May 2005 equity financing. Pursuant to the terms of the settlement, the Company owes Alpha Capital \$200,000 due and payable no later than February 15, 2008 or upon the Company’s merger with a third party as contemplated by the Dolar

transaction. Should such amount not be paid at that time, the creditor has the right to convert the outstanding amount owed into equity at a 15% discount of the last 30 day average trading price. Should the creditor not choose to convert the obligation into equity, the obligation reverts to a note payable at the rate of 18% per annum.

On October 15, 2007, we entered into a settlement agreement with Creston Resources Ltd (successor in interest to Mountain Oil and Gas, Inc.) to settle the notes receivable owed to us, as mentioned in Note 5 above. The settlement agreement releases all claims by either party except; \$31,169 as consideration for oil sales on the 1-34B well payable to us, and a promissory note for the amount of \$300,000 payable to us without interest (except in case of default) in twelve equal monthly installments of \$25,000. The first payment was due and payable on October 15, 2007, and payable on the 15th of each month thereafter until paid in full.

Table of Contents

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

Forward-Looking Statements

This report includes certain forward-looking statements. Forward-looking statements are statements that predict the occurrence of future events and are not based on historical fact. Forward-looking statements may be identified by the use of forward-looking terminology, such as "may", "shall", "will", "could", "expect", "estimate", "anticipate", "predict", "possible", "should", "continue", or similar terms, variations of those terms or the negative of those terms. We have written the forward-looking statements specified in the following information on the basis of assumptions we consider to be reasonable. However, we cannot predict our future operating results. Any representation, guarantee, or warranty should not be inferred from those forward-looking statements.

The assumptions we used for purposes of the forward-looking statements specified in the following information represent estimates of future events and are subject to uncertainty in economic, legislative, industry, and other circumstances. As a result, judgment must be exercised in the identification and interpretation of data and other information and in their use in developing and selecting assumptions from and among reasonable alternatives. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results. Accordingly we express no opinion on the achievability of those forward-looking statements. We cannot guarantee that any of the assumptions relating to the forward-looking statements specified in the following information are accurate. We assume no obligation to update any such forward-looking statements.

Overview

On January 5, 2004, we began operations as an oil and gas exploration company. We acquired interests in certain assets owned by Diamond Oil & Gas Corporation, in exchange for 3,500,000 shares of common stock. The transaction was deemed to have a value of \$6,405,000. The assets included certain oil and gas projects, as well as the right to enter into the Exploration Services Funding Agreement with Thomasson Partner Associates, Inc. of Denver, Colorado. Diamond is controlled by our CEO, George S. Young. Our goal is to discover substantial commercial quantities of oil and gas, including coalbed methane, on the properties as well as to acquire and explore additional property.

Projects acquired from Thomasson Partner Associates, Inc. under the Exploration Services Funding Agreement (as Amended) include the Weston County project in Wyoming, the Gordon Creek project in Utah, the Carter Creek project in Wyoming, the Circus project in Montana, the Bacaroo project in Colorado, the Platte project in Nebraska, and the Badger project in South Dakota. During the year ended December 31, 2006, we abandoned the Platte and Badger projects. As of December 31, 2006, we terminated our formal agreement with Thomasson Partner Associates, Inc. and will continue accessing projects informally, without having any first right to any project.

On October 30th, 2007, we entered into an agreement to provide for (1) the earn-in on the Divide, Pinedale and Wilkens Ridge projects; (2) the hiring of Mark S. Dolar and Ken Allen into the management, and their appointment as directors; and (3) to provide for the potential growth of the Company through a joint venture or other financing arrangement, or a potential business combination whereby we would merge with a new company through a reverse merger with the new company. It is expected that we would continue to conduct the business of Fellows and of Dolar and would raise capital through a joint venture, or other financing, or in connection with a merger with the new company and to acquire and/or develop the assets.

Plan of Operations

During the next twelve months, we expect to pursue oil and gas operations on some or all of our property, including the acquisition of additional acreage through leasing, farm-out or option and participation in the drilling of oil and gas wells. We intend to pursue the Dolar transactions until completion, including the possible merger or acquisition as contemplated in the Dolar transaction. We also intend to continue to evaluate additional opportunities in areas where we feel there is potential for oil and gas reserves and production, and may participate in areas other than those already identified, although we cannot assure that additional opportunities will be available, or if we participate in additional opportunities, that those opportunities will be successful.

Our current cash position is not sufficient to fund our cash requirements during the next twelve months, including operations and capital expenditures. We intend to continue joint venture or equity and/or debt financing efforts to support our current and proposed oil and gas operations and capital expenditures. We may sell interests in our properties. We cannot assure that continued funding will be available.

Table of Contents

We have not entered into commodity swap arrangements or hedging transactions. Although we have no current plans to do so, we may enter into commodity swap and/or hedging transactions in the future in conjunction with oil and gas production. We have no off-balance sheet arrangements.

Our future financial results continue to depend primarily on (1) our ability to discover or purchase commercial quantities of oil and gas; (2) the market price for oil and gas; (3) our ability to continue to source and screen potential projects and finance them through joint ventures and potential business combinations; and (4) our ability to fully implement our exploration and development program with respect to these and other matters. We cannot assure that we will be successful in any of these activities or that the prices of oil and gas prevailing at the time of production will be at a level allowing for profitable production.

Results of Operations

For the three months ended September 30, 2007 as compared to the three months ended September 30, 2006.

Revenue. For the three months ended September 30, 2007, we earned \$0 from our Carbon County project, compared to \$111,000 in revenue for the three months ended September 30, 2006. This difference relates to the sale of the Carbon County project effective June 2007.

Operating expense. For the three months ended September 30, 2007, our operating expense was approximately \$69,000, compared to \$1,081,000 for the three months ended September 30, 2006. The expenses came from oil and gas exploration and production, salaries, business advisory services, legal and professional fees, travel, and investor relations expense. Primarily the difference between the two periods relates to lower exploration and production costs, legal, business advisory, and stock issuance costs associated with the convertible debentures for the three months ended September 30, 2006. Expenses for the three months ended September 30, 2007 consisted of \$3,000 in exploration expenses, \$28,000 in legal, consulting, and audit services, \$8,000 in payroll, \$17,000 in insurance costs, and \$13,000 in other costs including rent, bank fees, travel, and telephone expenses.

Interest expense. We incurred interest expense of \$1,468,000 for the three months ended September 30, 2007, compared to \$31,000 for the three months ended September 30, 2006. Interest expense for the quarter primarily consisted of amortized convertible debenture discount and deferred debt issue costs.

For the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006.

Revenue. For the nine months ended September 30, 2007, we had no further revenue earned after the sale of the Carbon County project, which has been classified as discontinued operations, in comparison to \$454,000 in revenue for the nine months ended September 30, 2006.

Operating expense. For the nine months ended September 30, 2007, our operating expense was approximately \$3,221,000, compared to \$3,296,000 for the nine months ended September 30, 2006. The expenses came from oil and gas exploration and production, salaries, business advisory services, legal and professional fees, travel, investor relations expense, and debt service. Primarily the difference between the two periods relates to higher exploration and production costs, legal, business advisory, and stock issuance costs associated with the convertible debentures for the period ended September 30, 2006, as well as the relinquishment of property options during the second quarter of 2007. In addition to the \$2,075,000 in property option relinquishment, expenses for nine months ending September 30, 2007 consisted of \$78,000 in depreciation, depletion, and amortization, and \$1,068,000 in legal, consultant, audit and other costs including rent, insurance, payroll, payroll taxes, and stock issuance costs. There was also approximately \$1,200,000 in expenses in connection with the debt restructuring.

Interest expense. We incurred interest expense of \$2,174,000 for the nine months ended September 30, 2007, compared to \$108,000 for the nine months ended September 30, 2006. This difference primarily relates to convertible debenture interest incurred. Interest expense for the year primarily consisted of amortized convertible debenture discount and deferred debt issue costs.

Table of Contents

Liquidity and Capital Resources

For the quarter ended September 30, 2007, we had net income of \$272,000, which was primarily due to the sale of the Carbon County project. For the quarter ended September 30, 2006, we incurred a net loss of \$1,065,000. At September 30, 2007, we had \$1,700 of cash and cash equivalents, total current assets of \$443,000, and current liabilities of \$3,456,000 for a working capital deficit of \$3,013,000.

Based upon our significant operating losses from inception, there is substantial doubt as to our ability to continue as a going concern. Our audited and unaudited financial statements have been prepared on a basis that contemplates our continuation as a going concern and the realization of assets and liquidation of liabilities in the ordinary course of business. Our audited and unaudited consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

At this point, we have not generated sufficient oil and gas sales to sustain our operations. To fully carry out our business plans we need to increase production revenues, raise a substantial amount of additional capital, sell project assets, or obtain industry joint venture financing, which we are currently seeking. We can give no assurance that we will be able to increase production or raise such capital. We have limited financial resources until such time that we are able to generate such additional financing or additional cash flow from operations. Our ability to obtain profitability and positive cash flow is dependent upon our ability to exploit our mineral holdings, generate revenue from our planned business operations and control our exploration cost. To fully carry out our business plans we need to raise a substantial amount of additional capital, which we are currently seeking. We can give no assurance that we will be able to raise such capital. We have limited financial resources until such time that we are able to generate positive cash flow from operations. Our ability to maintain profitability and positive cash flow is dependent upon our ability to locate profitable natural gas or oil properties, generate revenue from our planned business operations, and control exploration cost. Should we be unable to raise adequate capital or to meet the other above objectives, it is likely that we would have to substantially curtail our business activity, and that our investors would incur substantial losses of their investment.

Cash Flow

For the nine months ended September 30, 2007, we used \$3,540,000 in our operating activities. We obtained \$5,074,000 in investing activity for our property and interest disposition, and used \$1,712,000 in financing activity from making payments on capital obtained through financings. We decreased our December 31, 2006 cash balance of \$180,000 to \$1,700 at September 30, 2007.

Critical Accounting Policies and Estimates

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, accrued expense, financing operations, contingencies and litigation. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. Our estimates and judgments form the basis for determining the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. These carrying values are some of the most significant accounting estimates inherent in the preparation of our financial statements. These accounting policies are described

in relevant sections in this discussion and in the notes to the financial statements included in our December 31, 2006 Form 10-KSB Annual Report.

Table of Contents

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of September 30, 2007. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-QSB that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Part II: Other Information

Item 1. Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. Except as described in our annual report on Form 10-KSB, filed with the Commission on April 20, 2007, we are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Securities Holders

Our annual meeting, scheduled for June 27, 2007, was adjourned for lack of a quorum. No new meeting date, time or place has been established.

Item 5. Other Information

None.

Item 6. Exhibits

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

Table of Contents

Signatures

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FELLOWS ENERGY LTD.

Date: April 14, 2008

By: /s/ GEORGE S. YOUNG

Name: George S. Young

Title: Chief Executive Officer (Principal Executive Officer)

Date: April 14, 2008

By: /s/ BROOKE E. HORSPOOL

Name: Brooke E. Horspool

Title: Chief Financial Officer (Principal Accounting Officer and Principal Financial Officer)