

FELLOWS ENERGY LTD  
Form 10-Q  
November 19, 2008

---

United States

Securities And Exchange Commission  
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
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.)

370 Interlocken Blvd, Suite 400  
Broomfield, CO 80021  
(Address of Principal Executive Offices)

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

Indicate by check mark whether the issuer (1) has 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.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   
Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable

Edgar Filing: FELLOWS ENERGY LTD - Form 10-Q

date: As of August 19, 2008 there were 100,000,000 shares of the issuer's \$.001 par value common stock issued and outstanding.

Transitional Small Business Disclosure format (check one):  Yes  No

---

Table of Contents

## FELLOWS ENERGY LTD.

Quarterly Report on Form 10-Q for the  
Quarterly Period Ending September 30, 2008

## Table of Contents

PART I. FINANCIAL INFORMATION	Page
Item 1. <u>Financial Statements</u>	
<u>Balance Sheets:</u>	
September 30, 2008 (Unaudited) and December 31, 2007	3
<u>Statements of Operations:</u>	
Three and Nine Months Ended September 30, 2008 and 2007 (Unaudited)	4
<u>Statements of Cash Flows:</u>	
Nine Months Ended September, 2008 and 2007 (Unaudited)	5
<u>Notes to Unaudited Financial Statements:</u>	
September 30, 2008	6-17
Item 2. <u>Management Discussion and Analysis</u>	19
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	22
Item 4. <u>Controls and Procedures</u>	22
<b>PART II. OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	24
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
Item 3. <u>Defaults Upon Senior Securities</u>	24
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	24
Item 5. <u>Other Information</u>	24
Item 6. <u>Exhibits</u>	24
<u>Signatures</u>	25



Table of Contents

## Part I: Financial Information

## Item 1. Financial Statements

Fellows Energy Ltd.  
Balance Sheets

	September 30, 2008 (Unaudited)	December 31, 2007
Assets		
Cash and cash equivalents	\$ —	\$ 3,654
Accounts receivable	—	202,220
Settlement receivable	25,000	243,104
Total current assets	25,000	448,978
Unproved oil & gas property	1,034,870	951,140
Equipment, net of \$55,006 and \$44,387 accumulated depreciation respectively	29,253	42,871
Restricted cash	40,000	160,000
Total assets	\$ 1,129,123	\$ 1,602,989
Liabilities And Stockholders' Equity		
Accounts payable	\$ 518,424	\$ 395,147
Other accrued liabilities	215,419	230,838
Taxes payable	3,951	3,564
Interest payable	345,700	291,100
Notes payable	163,606	393,381
Convertible debenture	1,983,139	2,253,139
Total current liabilities	3,230,239	3,567,169
Interest payable – related party	665,232	358,234
Notes payable – related party	3,253,784	2,753,573
Stockholders' equity		
Preferred stock, \$.001 par value; 25,000,000 shares authorized; none outstanding	—	—
Common stock, \$.001 par value; 100,000,000 shares authorized; 100,000,000 and 100,000,000 shares issued and outstanding	100,000	100,000
Additional paid-in capital	20,302,435	20,328,962
Stock pledged as collateral	(26,526)	(53,053)
Accumulated deficit	(26,396,041)	(25,451,896)
Total stockholders' equity	(6,020,132)	(5,075,987)
Total liabilities and stockholders' equity	\$ 1,129,123	\$ 1,602,989

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,	
	2008	2007	2008	2007
Revenue	\$	—\$	—\$	—\$
<b>Operating expense</b>				
Exploration and production	—	3,113	—	3,113
General and administrative	73,949	66,360	363,046	1,142,856
Relinquishment of property	—	—	—	2,075,368
	(73,949)	(69,473)	(363,046)	(3,221,337)
<b>Other income (expense)</b>				
Interest expense	(126,260)	(1,467,703)	(381,856)	(2,173,759)
Gain (loss) on extinguishment of debt	—	244,466	—	(825,717)
Miscellaneous income	2,392	9,506	2,976	25,935
Total other expense	(123,868)	(1,213,731)	(378,880)	(2,973,541)
Loss from continuing operations before income tax	(197,817)	(1,283,204)	(741,926)	(6,194,878)
Income tax expense	—	—	—	—
Deferred tax benefit	—	—	—	—
Loss from continuing operations	\$ (197,817)	\$ (1,283,204)	\$ (741,926)	\$ (6,194,878)
Revenue from discontinued operations	—	—	—	108,344
Expenses from discontinued operations	—	—	—	(111,159)
Gain on sale of property	—	1,555,318	(202,220)	1,555,318
Loss from discontinued operations	—	1,555,318	(202,220)	1,552,503
Net loss	\$ (197,817)	\$ 272,114	\$ (944,146)	\$ (4,642,375)
Basic and diluted loss per share	\$ (0.00)	\$ 0.00	\$ (0.01)	\$ (0.05)
Basic and diluted weighted average shares outstanding	100,000,000	100,000,000	100,000,000	96,290,216

See accompanying notes to unaudited financial statements

Table of Contents

Fellows Energy Ltd.  
Statements of Cash Flows  
(Unaudited)

	Nine Months Ended September 30,	
	2008	2007
Cash flow from operating activities:		
Net loss	\$ (944,146)	\$ (4,642,375)
Adjustments to reconcile net income to net cash used in operating activities:		
Gain on sale of projects	—	(1,470,348)
Gain on extinguishment of debt	—	(244,466)
Expenses paid with stock issuance	—	1,202,618
Expenses paid with stock issuance obligation	—	—
Debt issue costs and discount amortization	—	1,662,213
Depreciation	13,618	78,035
Unproved oil and gas property relinquishment	—	2,075,368
Changes in operating assets and liabilities:		
Receivables	420,323	(125,217)
Interest payable	361,598	138,158
Accounts payable & other liabilities	108,247	2,854,295
Net cash provided by (used in) operating activities	(40,360)	1,528,281
Cash flow from investing activities:		
Proceeds from sale of property	—	34,780
Deposits	—	(28,000)
Unproved oil and gas property	(83,730)	(13,957)
Restricted Cash	120,000	—
Disposition of equipment	—	12,779
Net cash used in investing activities	36,270	5,602
Cash flow from financing activities:		
Proceeds from issuance of convertible debenture	—	714,500
Discount on convertible debenture	—	(214,500)
Payments on convertible debenture	(270,000)	—
Borrowings on note payable	500,211	927,235
Payments on notes payable	(229,775)	(3,139,312)
Net cash provided by financing activities:	436	(1,712,077)
Net decrease in cash and equivalents	(3,654)	(178,194)
Cash and equivalents at beginning of period	3,654	179,926
Cash and equivalents at end of period	\$ —	\$ 1,732
Supplemental Disclosure of Cash Flow and Non-cash Investing and Financing Activity:		
Income tax paid	\$ —	\$ —
Interest paid	\$ 16,825	\$ 72,533
Non cash:		
Convertible debenture paid with stock issuance	\$ —	\$ 681,350
Legal and advisory services in exchange for stock issuance obligation	\$ —	\$ 120,000



Fees paid with stock	\$	—\$ 1,202,618
----------------------	----	---------------

See accompanying notes to unaudited financial statements

Table of Contents

Fellows Energy Ltd.  
Notes to Unaudited Financial Statements  
September 30, 2008

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-Q. 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, 2007, as well as the 10-QSB for the quarters ended September 30, 2007, June 30, 2008, and March 31, 2008. 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 Broomfield, 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, 2008 and December 31, 2007, we had approximately \$0 and \$3,654 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

Computer and office equipment: 3 to 5 years

Field equipment: 1 to 30 years

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 June 30, 2008.

6

---

Table of Contents

Fellows Energy Ltd.  
Notes to Unaudited Financial Statements  
September 30, 2008

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.

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, 2008, 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. Asset retirement obligation consists of costs related to the plugging of wells and removal of facilities and equipment on oil and gas properties. The asset retirement liability is allocated to operating expenses using a systematic and rational method.



Table of Contents

Fellows Energy Ltd.  
Notes to Unaudited Financial Statements  
September 30, 2008

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.

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, 2008, all weighted average shares outstanding have been included in the calculation.

Accumulated Other Comprehensive Income (Loss)

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



Table of Contents

Fellows Energy Ltd.  
Notes to Unaudited Financial Statements  
September 30, 2008

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 have evaluated FAS 157, and did not consider it to have an impact 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 have evaluated FAS 159, and did not consider it to have an impact 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.

9

---

Table of Contents

Fellows Energy Ltd.  
Notes to Unaudited Financial Statements  
September 30, 2008

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, 2008, 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, 2008, 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.

Note 4—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.



Table of Contents

Fellows Energy Ltd.  
Notes to Unaudited Financial Statements  
September 30, 2008

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 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. As of September 30, 2008, we have received \$275,000 on the note.

Note 5—Notes Payable

At September 30, 2008, we owed two unsecured notes of \$2,653,784 and \$600,000 to an entity controlled by our CEO. The notes accrue interest at a rate of 10% and 18% per annum compounded daily. These notes include \$665,232 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 issued 3,600,000 warrants upon an increase in the authorized common stock of the Company. The terms of the warrants remained informalized, and as such, we could not place a value on such warrants. 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 30, 2008, we owed \$163,606 on the note.

Note 6—Settlement Payable

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. As such amount not has not been paid, Alpha Capital now possesses the right to convert the outstanding amount owed into equity at a 15% discount of the last 30 day average trading price, or into a promissory note at the rate of 18% per annum. Alpha Capital has expressed it is their intent to collect the obligation as a promissory note at this time.

Note 7—Related Party Transactions

At March 31, 2008, we owed two unsecured demand notes of \$2,653,784 and \$600,000 to an entity controlled by our CEO. The notes accrue interest at a rate of 10% and 18% per annum compounded daily. These notes include \$665,232 due in interest.

Table of Contents

Fellows Energy Ltd.  
Notes to Unaudited Financial Statements  
September 30, 2008

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 informalized, and as such, we could not place a value on such warrants. 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 June 30, 2008, we owed \$163,606 on the note.

Note 8—Common Stock

We issued no stock during the first or second quarter of 2008, as all authorized stock is issued and outstanding.

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, 2008, the debentures and accrued interest due was \$1,345,700.

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.



Table of Contents

Fellows Energy Ltd.  
Notes to Unaudited Financial Statements  
September 30, 2008

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.

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

13

---



Table of Contents

Fellows Energy Ltd.  
Notes to Unaudited Financial Statements  
September 30, 2008

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, 2008

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.

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.

Table of Contents

Fellows Energy Ltd.  
Notes to Unaudited Financial Statements  
September 30, 2008

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.

Uintah Basin Workover Project, Uintah Basin, Utah (formerly known as the Creston Project)

On October 25, 2005, we entered into a participation agreement with Mountain Oil and Gas, Inc., Creston Resources Ltd, and Homeland Gas and Oil Ltd. (collectively "Creston"), and began negotiations with private investors, to supply operating expertise and program supervision to earn working interests in up to 45 producing oil wells in the Uintah Basin of Utah. Thereafter, we immediately commenced a rework operation on the first well chosen for the program to re-complete previously-completed zones and extend behind pipe reserves. This well is located in the prolific Altamont-Bluebell Field, which has produced over 350 million barrels of oil equivalent. Creston will retain the current or historical production in this well, while we and the private investors will earn a variable percentage of the production increase resulting from the reworking operations. We completed work on the first well and commenced production in the first quarter of 2006. Although we plan to continue our interest in this well and generate revenue from it, we are seeking new opportunities from parties other than Creston in order to pursue our reworking efforts, since, due to Creston's own financial difficulties, we have not been able to maintain our interests in the other wells and properties as previously contemplated with Creston. As a result, our efforts will now focus on wells of other parties.

In many areas of the Altamont-Bluebell field and other areas of the Uintah Basin, due to the over-pressured, fractured nature of the reservoirs and the heavy nature of the oil, 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 increase oil and gas recovery.

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.

Table of Contents

Fellows Energy Ltd.  
Notes to Unaudited Financial Statements  
September 30, 2008

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. In lieu of the foregoing, we have negotiated with Thunderbird to sell 45% of our interest in Weston Count and Gordon Creek for \$250,000 and used the proceeds to pay down the balance owing on the convertible debentures to Palisades in connection with a settlement at a discount of the amount outstanding.

Gordon Creek, Utah

Thunderbird Energy Corp. has also acquired the interest of JMG Exploration, our former joint venture partner, in the 5,242-acre Gordon Creek project. 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.

The Company now anticipates that Thunderbird Energy Corp. (also its former joint venture partner on the adjacent Carbon County project) will proceed with development jointly with the Company on the Gordon Creek project in response to favorable results on the Carbon County project. We have negotiated with Thunderbird to sell 45% of our interest in Weston County and Gordon Creek for \$250,000 and used the proceeds to pay down the balance owing on the convertible debentures to Palisades in connection with a settlement at a discount of the amount outstanding.

Bacaroo, Colorado

In 2004 we optioned an interest in 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.

Other Projects

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"). We have not been able to close and finance this transaction, and at present we plan to discontinue negotiating on these projects.

Table of Contents

Fellows Energy Ltd.  
Notes to Unaudited Financial Statements  
September 30, 2008

On September 15, 2008, we announced that we have entered into an agreement, subject to due diligence, to acquire Grupo Minero Aconcagua SA ("GMA"), a private Argentine company in advanced stages of negotiation to acquire rights to geothermal and wind energy projects in central and southern Argentina. The geothermal project being targeted has been the subject of a previous feasibility study, with initial evaluations at the 30 MW level. Together with other areas now targeted and including additional estimated potential, we believe that the geothermal projects now being targeted host potential of up to 400 MW. We are continuing to identify, negotiate and acquire rights to geothermal and wind energy projects through its pending acquisition of GMA.

In the event we are able to complete the acquisitions, we plan to update internally the previous feasibility study to obtain a current estimate of the revenue potential of the project as a first step to move forward with the project. The acquisition of GMA would give the Company the capability to negotiate and acquire a number of alternative energy projects in the country. Terms of the transaction are still under negotiation, but will likely call for success payments to be made to the GMA shareholders in relation to the generating capacity of the rights obtained in the first year.

We believe that a number of financial incentives and an emerging, favorable market and attractive financing terms for geothermal, wind and other alternative energy projects will provide a solid basis to move forward with these projects. Although we are now actively refocusing our efforts to take advantage of the alternative energy segment of the industry, we also continue in our efforts to obtain joint venture financing on our oil and gas exploration projects in the western United States to enable us to eliminate our convertible debt and strengthen our balance sheet.

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. We have not been able to close and finance this transaction, and are evaluating our alternatives in the event we cannot negotiate an extension to do so.

Table of Contents

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.

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, 2008 as compared to the three months ended September 30, 2007.

Revenue. For the three months ended September 30, 2008 and 2007, we earned no revenue.

Operating expense. For the three months ended September 30, 2008, our operating expense was approximately \$74,000, compared to \$69,000 for the three months ended September 30, 2007. The expenses came from oil and gas exploration and production, salaries, business advisory services, legal and professional fees, travel, and investor relations expense. Expenses for the three months ended September 30, 2008 consisted of \$38,000 in legal, consulting, investor relations, and audit services, \$11,000 in payroll, \$6,000 in insurance costs, and \$19,000 in other costs including rent, bank fees, travel, depreciation, and telephone expenses.

Interest expense. We incurred interest expense of approximately \$126,000 for the three months ended September 30, 2008, compared to \$1,468,000 for the three months ended September 30, 2007.

Table of Contents

For the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007.

Revenue. For the nine months ended September 30, 2008 and 2007, we earned no revenue.

Operating expense. For the nine months ended September 30, 2008, our operating expense was approximately \$363,000, compared to \$3,221,000 for the nine months ended September 30, 2007. 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 relinquishment of property, higher professional and legal fees, and other costs including rent, payroll, payroll taxes, and stock issuance costs for the nine months ended September 30, 2007. Expenses for the nine months ended September 30, 2008 consisted of \$247,000 in legal, consulting, and audit services, \$36,000 in payroll, \$17,000 in insurance costs, and \$50,000 in other costs including rent, bank fees, travel, depreciation, and telephone expenses.

Interest expense. We incurred interest expense of approximately \$382,000 for the nine months ended September 30, 2008, compared to \$2,174,000 for the nine months ended September 30, 2007.

Liquidity and Capital Resources

For the quarter ended September 30, 2008, we had net loss of approximately \$198,000, which was primarily due general and administrative expenses and interest expense. For the quarter ended September 30, 2007, we incurred a net loss of approximately \$1,283,000 before discontinued operations. At September 30, 2008, we had total current assets of \$25,000, and current liabilities of \$3,230,000 for a working capital deficit of \$3,205,000.

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.



Table of Contents

Cash Flow

For the nine months ended September 30, 2008, we used approximately \$40,000 in our operating activities, and obtained 36,000 in investing activity from the release of restricted cash on deposit for project bonding. We decreased our December 31, 2007 cash balance of approximately \$4,000 to approximately \$0 at September 30, 2008.

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, 2007 Form 10-KSB Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a crude oil and natural gas exploration and production company, any revenue, cash flow from operations, other income, or access to capital and future rate of growth are substantially dependent upon the prevailing prices of crude oil and natural gas. Declines in commodity prices will materially adversely affect our future growth rate, liquidity, and ability to obtain financing and operating results. Lower commodity prices may reduce the amount of crude oil and natural gas that we could produce economically. Prevailing prices for such commodities are subject to wide fluctuation in response to relatively minor changes in supply and demand and a variety of additional factors beyond our control, such as global, political and economic conditions. Historically, the prices of crude oil and natural gas production have been volatile and unpredictable, and such volatility is expected to continue. Generally, if the commodity indexes fall, the price that we could receive for production will also decline. Therefore, the amount of revenue that we could realize is partially determined by factors beyond our control.

Item 4. 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 June 30, 2008. 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.



Table of Contents

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-Q 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 15, 2008, 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

As previously reported on the Company's Form 8-K filed on November 16, 2007, we have categorized the entire balance of the Convertible Debentures due September 2007 and December 2007 held by Palisades Master Fund, Ltd. and PEF Advisors, LLC (collectively "Palisades") as immediately due and payable and such amounts appear in the Company's balance sheets as current liabilities. On January 22 2008, the Company received a demand letter from Palisades with respect to the debentures, demanding immediate payment of the amounts claimed by Palisades to be due and advising that Palisades will pursue legal remedies in the event of non-payment. Prior to that time, the Company has been in ongoing discussions with Palisades concerning renegotiation or restructuring of those debentures in connection with its ongoing efforts to pursue the completion of its purchase of the Dolar Energy, LLC interests (as previously disclosed), joint venture financings, or other business combinations. The Company will continue in these efforts and attempt to satisfy any valid obligations under such Convertible Debentures and pursue the Dolar Energy, LLC transactions and other financing or acquisition transactions that it may be able to identify.

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

Exhibit	Description
<u>31.1</u>	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
<u>31.2</u>	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: November 19, 2008

By: /s/ GEORGE S. YOUNG

Name: George S. Young

Title: Chief Executive Officer ( Principal Executive Officer)

Date: November 19, 2008

By: /s/ BROOKE E. HORSPOOL

Name: Brooke E. Horspool

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