

FELLOWS ENERGY LTD
Form 10KSB/A
March 05, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB/A
(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
For the Fiscal Year Ended December 31, 2007

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
For the Transition Period From _____ to _____

Commission File Number 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
(IRS Employer Identification No.)

1369 Forest Park Circle, Suite 202
Lafayette, Colorado
(Address of principal executive office)

80026
(Postal Code)

(303) 926-4415
(Issuer's telephone number)

370 Interlocken Boulevard, Suite 400, Broomfield, Colorado 80021
(former name, former address and former fiscal year, if changed since last report)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, \$0.001 par value

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes [] No [x]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to Form 10-KSB.

Yes [] No [x] Delinquent filers are disclosed herein.

The Company had \$31,000 in revenue in 2007.

The aggregate market value of the Common Stock held by non-affiliates (as affiliates are defined in Rule 12b-2 of the Exchange Act) of the registrant, computed by reference to the average of the high and low sale price on April 14, 2008, was \$1,650,000.

As of April 14, 2008 there were 100,000,000 shares of issuer's common stock outstanding.

1

Table of Contents

FELLOWS ENERGY LTD.

FORM 10-KSB

For the Fiscal Year Ended December 31, 2007

Part I	Page
Item 1 <u>Description of Business</u>	3
Item 2 <u>Description of Property</u>	12
Item 3 <u>Legal Proceedings</u>	16
Item 4 <u>Submission of Matters to a Vote of Security Holders</u>	16
Part II	Page
Item 5 <u>Market for Common Equity and Related Stockholder Matters</u>	17
Item 6 <u>Management's Discussion and Analysis or Plan of Operation</u>	18
Item 7 <u>Financial Statements</u>	23
Item 8 <u>Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</u>	42
Item 8A <u>Controls and Procedures</u>	42
Item 8B <u>Other Information</u>	43
Item 13 <u>Exhibits</u>	44
<u>Signatures</u>	47

Explanatory Note

This amended annual report on Form 10-KSB/A is filed to make certain reclassifications and corrections to present certain disclosures in accordance with SFAS 144 paragraph 47, SFAS 95 paragraphs 28 and 32, and SFAS 19 paragraph 28, and ARB 43 paragraph 7. These include; revising an inconsistency within our disclosure of operating expenses, to include our prior accountant's opinion as consented to in the exhibit 23.1, removal of the caption "gross margin" in the statement of operations, to reclassify the gain on sale of property to the discontinued operations section of the statement of operations, to reclassify property relinquishments from the investing section to be included in reconciling items of the operating section of the statement of cash flows, to include only cash proceeds received during the year on the sale of the Carbon County property as well as to correct the labeling to identify actual cash proceeds, and to present the property portion of the sale within the table of the major classes of assets and liabilities sold in the Carbon County sale.

As permitted by General Instruction E to this form, the original filing of our annual report on Form 10-KSB is incorporated by reference the complete information required by Parts I, II, and III.

The information contained in this Form 10-KSB/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-KSB. Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, we have set forth the complete text of each item of our originally filed annual report affected by this amendment.

Table of Contents

PART I

FORWARD-LOOKING INFORMATION

This Annual Report of Fellows Energy Ltd. on Form 10-KSB contains forward-looking statements, particularly those identified with the words, "anticipates," "believes," "expects," "plans," "intends", "objectives" and similar expressions. These statements reflect management's best judgment based on factors known at the time of such statements. The reader may find discussions containing such forward-looking statements in the material set forth under "Legal Proceedings" and "Management's Discussion and Analysis and Plan of Operations," generally, and specifically therein under the captions "Liquidity and Capital Resources" as well as elsewhere in this Annual Report on Form 10-KSB. Actual events or results when compared to these forward-looking statements may differ materially from those discussed herein.

ITEM 1. DESCRIPTION OF BUSINESS.

Company History

Fellows Energy Ltd. was incorporated in Nevada on April 9, 2001 as Fuel Centers, Inc. In November 2001, the Commission declared effective our registration statement to register 31,185,150, as adjusted, shares of common stock held by our stockholders. We were originally formed to offer business consulting services in the retail automobile fueling industry. During the fourth quarter of 2003, we changed management, and entered the oil and gas business and ceased all activity in the automobile refueling industry. On November 12, 2003, we changed our name to Fellows Energy Ltd. and shifted our focus to exploration for oil and gas in the Rocky Mountain Region. On January 5, 2004, we acquired certain interests in certain oil and gas leases and other interests owned by Diamond Oil & Gas Corporation, a Nevada corporation. Diamond is wholly owned by George S. Young, our CEO, President, and Director. Our common stock is publicly traded over-the-counter and quoted on the OTC Bulletin Board under the symbol "FLWE.OB."

We are an early stage oil and gas company led by an experienced management team and focused on exploration and production of oil and natural gas. Our strategy is to pursue selected opportunities that are characterized by reasonable entry costs, favorable economic terms, high reserve potential relative to capital expenditures and the availability of existing technical data that may be further developed using current technology. In 2006, we also turned our emphasis away from early stage exploration projects to focus on advanced-stage and producing properties.

Business Strategy

We seek to: (1) achieve attractive returns on capital for the benefit of our stockholders through investment in exploration and development; (2) maintain a strong balance sheet to preserve maximum financial and operational flexibility; and (3) create strong employee incentives through equity ownership.

Disciplined Acquisition Strategy

We intend to acquire producing oil and gas properties where we believe significant additional value can be created. Management is primarily interested in producing and unconventional play properties with a combination of these factors: (1) opportunities for long life production with stable production levels; (2) geological formations with multiple producing horizons; (3) substantial exploitation potential; and (4) relatively low capital investment production costs.

Exploitation of Properties

We intend to maximize the value of our properties through a combination of successful exploration, drilling, increasing production, increasing recoverable reserves, and reducing operating costs. Where we deem appropriate, we will employ technology to improve recoveries such as directional and horizontal drilling. Directional and horizontal drilling and completion methods have historically produced oil and gas at faster rates and with lower operating costs basis than traditional vertical drilling.

3

Table of Contents

Experienced and Dedicated Personnel

We intend to maintain a highly competitive team of experienced and technically proficient employees and consultants and motivate them through a positive work environment and stock ownership. We believe that employee ownership, which is encouraged through our stock option plan, is essential for attracting, retaining and motivating qualified personnel.

Company and Industry Highlights

According to the report Facing the Hard Truths about Energy (July 17, 2007), released in the summer of 2007 by the National Petroleum Council:

The Council found that total global demand for energy is projected to grow by 50-60 percent by 2030, driven by increasing population and the pursuit of improving living standards. At the same time, there are accumulating risks to the supply of reliable, affordable energy to meet this growth, including political hurdles, infrastructure requirements, and availability of a trained work force. We will need all economic, environmentally responsible energy sources to assure adequate, reliable supply.

A few highlights of their report to the Secretary of Energy include:

- “Coal, oil, and natural gas will remain indispensable to meeting total projected energy demand growth.”
- “The world is not running out of energy resources, but there are accumulating risks to continuing expansion of oil and natural gas production from the conventional sources relied upon historically. These risks create significant challenges to meeting projected total energy demand.”
- “To mitigate these risks, expansion of all economic energy sources will be required, including coal, nuclear, biomass, other renewables, and unconventional oil and natural gas. Each of these sources faces significant challenges including safety, environmental, political, or economic hurdles, and imposes infrastructure requirements for development and delivery.”

The United States must:

- “Expand and diversify production from clean coal, nuclear, biomass, other renewables, and unconventional oil and gas; moderate the decline of conventional domestic oil and gas production; and increase access for development of new resources.”
- “Enhance science and engineering capabilities and create long-term opportunities for research and development in all phases of the energy supply and demand system.”

Focus on Producing and Unconventional Plays

In building our inventory of oil and gas projects, we have concentrated on unconventional plays as well as conventional oil and gas projects.

Compared to conventional plays, unconventional plays present different advantages and risks. Typically, unconventional plays involve less geologic risk than conventional plays with respect to locating gas because hydrocarbons are known to exist and because unconventional plays are typically larger in size. Similarly, due to the greater size of typical unconventional plays, they inherently have greater reserve potential than conventional plays. In general, unconventional plays have not been developed to the extent of conventional plays and therefore greater opportunities exist for acquiring additional unconventional plays and increasing reserves.

However, development of typical unconventional plays may involve greater extraction and retrieval costs than are involved in development of typical conventional plays. In the typical unconventional play, the existence of gas is known but the quantity of such gas, and commercial viability, is unknown. The process of developing an unconventional play requires significant costs before the commercial viability can be ascertained. Therefore, there is a greater risk of cost overrun and the risk of inadequate gas recoveries is not avoided.

It is important to recognize that unconventional plays offer attractive potential for large reserve additions. This is because the large conventional traps have largely been found and developed, and because unconventional plays inherently have much greater size and therefore greater reserve potential. All of the top five onshore “gas giant” fields discovered and developed in the 1990s (including Powder River Basin coal bed methane, Jonah, Pinedale, Madden Deep and Ferron coal bed methane) were in the Rocky Mountain Region.

Table of Contents

Strategic Land Position

Through our direct ownership of mineral rights in the Powder River Basin and Uinta Basin, we have a strategic land position in the oil and gas producing basins of the Rocky Mountains. Known hydrocarbon resources in reservoirs in unconventional plays such as coal seams, thick oil-bearing shales, and extensive bodies of tight gas-bearing sands throughout the properties create the potential for a large inventory of drilling locations should initial exploration efforts prove successful. Although there are no assurances, this inventory could support future net reserve additions and production growth over the next several years.

Strong Underlying Industry Fundamentals

According to the National Petroleum Council Gas Report, the domestic natural gas fundamentals will continue to be attractive, for the foreseeable future. The U.S. faces a significant natural gas supply problem due to the maturing of its traditional producing basins, the increase in exploration and development costs, and demand increases coupled with production decline rates. The U.S. has several ways to combat this supply problem through measures including increased development and importation of Canadian and Alaskan gas and delivery of liquefied natural gas. However, the impact of these efforts is expected to only mitigate the supply decline or at best increase supply marginally.

Proven Management Expertise

Our CEO and President George S. Young and our Vice President Steve Prince have experience in operating and growing an oil and gas public company. Mr. Young brings strong leadership and business qualifications, an understanding from having been trained as both an attorney and engineer and 25 years of natural resource industry experience. Mr. Prince brings 22 years of oil and gas industry experience as a petroleum engineer and as a significant contributor to the development of major producing fields in areas of interest to us.

Financing Strategy

We intend to access debt and equity markets for private and public financings from time to time based on our needs on terms in the market then available to us. Initially, we expect that the bulk of capital formation will be in the form of convertible debt to equity capital to support the initial phases of exploration and exploitation work required on our projects. To the extent the plays mature into “Proven” status as determined by independent third-party engineers, we plan to utilize debt sources for a large percentage of our capital requirements so as to maximize the return on equity that these projects generate. This debt may be in the form of senior bank debt, junior or subordinated bank debt, and/or mezzanine debt. We cannot provide any assurance that we will be able to raise additional debt or equity to fund future operational and exploration needs or terms acceptable to us. Additionally, we may generate funds through (1) a joint venture, sale or farm out on an interest in one or more of its properties and/or (2) divesting one or more of our properties that are determined not to fit with our strategic core holdings.

Property Summary

In our short operating history in the oil and gas industry, we have positioned our company to control and exploit potential reserves from a number of oil and gas projects covering approximately 27,000 acres. These projects focus on coal bed methane, tight sands gas and oil from fractured shales. Such projects are characterized by their widespread occurrence, large reserve potential, low finding and development costs, high drilling success rates, and low geologic and operating risks. Such projects are also subject to certain risks and development of such projects requires substantial capital. Please see Item 2: Description of Property for more discussion related to the properties.

Competition

Oil and gas exploration and acquisition of undeveloped properties is a highly competitive and speculative business. We compete with a number of other companies, including major oil companies and other independent operators which are more experienced and which have greater financial resources. Such companies may be able to pay more for prospective oil and gas properties. Additionally, such companies may be able to evaluate, bid for and purchase a greater number of properties and prospects than our financial and human resources permit.

We will also compete with other junior oil and gas exploration companies for financing from a limited number of investors that are prepared to make investments in junior oil and gas exploration companies. The presence of competing junior oil and gas exploration companies may have an adverse impact on our ability to raise additional capital in order to fund our exploration programs if investors are of the view that investments in competitors are more attractive based on the merit of the oil and gas properties under investigation and the price of the investment offered to investors. We do not hold a significant competitive position in the oil and gas industry.

Table of Contents

Patents and Trademarks

We do not own, either legally or beneficially, any patent or trademark.

Governmental Regulations

Our operations are or will be subject to various types of regulation at the federal, state and local levels. Such regulation includes requiring permits for the drilling of wells; maintaining bonding requirements in order to drill or operate wells; implementing spill prevention plans; submitting notification and receiving permits relating to the presence, use and release of certain materials incidental to oil and gas operations; and regulating the location of wells, the method of drilling and casing wells, the use, transportation, storage and disposal of fluids and materials used in connection with drilling and production activities, surface usage and the restoration of properties upon which wells have been drilled, the plugging and abandoning of wells and the transporting of production. Our operations are or will be also subject to various conservation matters, including the regulation of the size of drilling and spacing units or proration units, the number of wells which may be drilled in a unit, and the unitization or pooling of oil and gas properties. In this regard, some states allow the forced pooling or integration of tracts to facilitate exploration while other states rely on voluntary pooling of lands and leases, which may make it more difficult to develop oil and gas properties. In addition, state conservation laws establish maximum rates of production from oil and gas wells, generally limit the venting or flaring of gas, and impose certain requirements regarding the ratable purchase of production. The effect of these regulations is to limit the amounts of oil and gas we may be able to produce from our wells and to limit the number of wells or the locations at which we may be able to drill.

Our business is affected by numerous laws and regulations, including energy, environmental, conservation, tax and other laws and regulations relating to the oil and gas industry. We plan to develop internal procedures and policies to ensure that our operations are conducted in full and substantial environmental regulatory compliance.

Failure to comply with any laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of injunctive relief or both. Moreover, changes in any of these laws and regulations could have a material adverse effect on business. In view of the many uncertainties with respect to current and future laws and regulations, including their applicability to us, we cannot predict the overall effect of such laws and regulations on our future operations.

We believe that our operations comply in all material respects with applicable laws and regulations and that the existence and enforcement of such laws and regulations have no more restrictive an effect on our operations than on other similar companies in the energy industry. We do not anticipate any material capital expenditures to comply with federal and state environmental requirements.

Environmental Matters

Operations on properties in which we have an interest are subject to extensive federal, state and local environmental laws that regulate the discharge or disposal of materials or substances into the environment and otherwise are intended to protect the environment. Numerous governmental agencies issue rules and regulations to implement and enforce such laws, which are often difficult and costly to comply with and which carry substantial administrative, civil and criminal penalties and in some cases injunctive relief for failure to comply.

Some laws, rules and regulations relating to the protection of the environment may, in certain circumstances, impose “strict liability” for environmental contamination. These laws render a person or company liable for environmental and natural resource damages, cleanup costs and, in the case of oil spills in certain states, consequential damages without regard to negligence or fault. Other laws, rules and regulations may require the rate of oil and gas production to be

below the economically optimal rate or may even prohibit exploration or production activities in environmentally sensitive areas. In addition, state laws often require some form of remedial action, such as closure of inactive pits and plugging of abandoned wells, to prevent pollution from former or suspended operations.

Legislation has been proposed in the past and continues to be evaluated in Congress from time to time that would reclassify certain oil and gas exploration and production wastes as “hazardous wastes.” This reclassification would make these wastes subject to much more stringent storage, treatment, disposal and clean-up requirements, which could have a significant adverse impact on operating costs. Initiatives to further regulate the disposal of oil and gas wastes are also proposed in certain states from time to time and may include initiatives at the county, municipal and local government levels. These various initiatives could have a similar adverse impact on operating costs.

Table of Contents

The regulatory burden of environmental laws and regulations increases our cost and risk of doing business and consequently affects our profitability. The federal Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, also known as the “Superfund” law, imposes liability, without regard to fault, on certain classes of persons with respect to the release of a “hazardous substance” into the environment. These persons include the current or prior owner or operator of the disposal site or sites where the release occurred and companies that transported, disposed or arranged for the transport or disposal of the hazardous substances found at the site. Persons who are or were responsible for releases of hazardous substances under CERCLA may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources, and it is not uncommon for the federal or state government to pursue such claims.

It is also not uncommon for neighboring landowners and other third parties to file claims for personal injury or property or natural resource damages allegedly caused by the hazardous substances released into the environment. Under CERCLA, certain oil and gas materials and products are, by definition, excluded from the term “hazardous substances.” At least two federal courts have held that certain wastes associated with the production of crude oil may be classified as hazardous substances under CERCLA. Similarly, under the federal Resource, Conservation and Recovery Act, or RCRA, which governs the generation, treatment, storage and disposal of “solid wastes” and “hazardous wastes,” certain oil and gas materials and wastes are exempt from the definition of “hazardous wastes.” This exemption continues to be subject to judicial interpretation and increasingly stringent state interpretation. During the normal course of operations on properties in which we have an interest, exempt and non-exempt wastes, including hazardous wastes, that are subject to RCRA and comparable state statutes and implementing regulations are generated or have been generated in the past. The federal Environmental Protection Agency and various state agencies continue to promulgate regulations that limit the disposal and permitting options for certain hazardous and non-hazardous wastes.

We believe that the operator of the properties in which we have an interest is in substantial compliance with applicable laws, rules and regulations relating to the control of air emissions at all facilities on those properties. Although we maintain insurance against some, but not all, of the risks described above, including insuring the costs of clean-up operations, public liability and physical damage, there is no assurance that our insurance will be adequate to cover all such costs, that the insurance will continue to be available in the future or that the insurance will be available at premium levels that justify our purchase. The occurrence of a significant event not fully insured or indemnified against could have a material adverse effect on our financial condition and operations. Compliance with environmental requirements, including financial assurance requirements and the costs associated with the cleanup of any spill, could have a material adverse effect on our capital expenditures, earnings or competitive position. We do believe, however, that our operators are in substantial compliance with current applicable environmental laws and regulations. Nevertheless, changes in environmental laws have the potential to adversely affect operations. At this time, we have no plans to make any material capital expenditures for environmental control facilities.

Employees

As of April 14, 2008, we have two full-time employees. The majority of development services have been provided to us by the officers and outside, third-party vendors. Currently, there exist no organized labor agreements or union agreements between us and our employees. We do not have employment agreements with any of our employees. We believe that our relations with our employees are good.

Reports to Security Holders

We file our quarterly and audited annual reports with the Securities and Exchange Commission (SEC), which the public may read and copy at the Public Reference Room at 100 F Street N.E., Room 1580, Washington D.C. 20549. SEC filings, including supplemental schedules and exhibits, can also be accessed free of charge through the SEC website at www.sec.gov. Our website is located at www.fellowsenergy.com, and can be used to access recent

news releases and Securities and Exchange Commission (SEC) filings, including our quarterly and audited annual reports, and other items of interest. Our website, and the information on our website, including other links contained on our website, are not incorporated into this Report.

Risks Related to Our Business

You should carefully consider the following risk factors and all other information contained herein as well as the information included in this Annual Report in evaluating our business and prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties, other than those we describe below, that are not presently known to us or that we currently believe are immaterial may also impair our business operations. If any of the following risks occur, our business and financial results could be harmed. You should refer to the other information contained in this Annual Report, including our consolidated financial statements and the related notes.

7

Table of Contents

We Have a History Of Losses Which May Continue, and May Negatively Impact Our Ability to Achieve Our Business Objectives.

We incurred net losses of \$9,315,952 and \$8,587,286 for the years ended December 31, 2007 and 2006, respectively. We cannot assure that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise. There can be no assurance that future operations will be profitable. Revenues and profits, if any, will depend upon various factors, including whether we will be able to continue expansion of our revenue. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us.

If We Are Unable to Obtain Additional Funding, Our Business Operations Will be Harmed and If We Do Obtain Additional Financing, Our Then Existing Shareholders May Suffer Substantial Dilution.

We will require additional funds to sustain and expand our acquisition, exploration and production of natural gas from coal bed methane. We anticipate that we will require up to approximately \$1,000,000 to fund our continued operations for the next twelve months from the date of this prospectus, depending on revenues from operations. Additional capital will be required to effectively support the operations and to otherwise implement our overall business strategy. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. The inability to obtain additional capital will restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our marketing and development plans and possibly cease our operations. Any additional equity financing may involve substantial dilution to our then existing shareholders.

Our Independent Registered Public Accounting Firm Has Stated There is Substantial Doubt About Our Ability to Continue As a Going Concern, Which May Hinder Our Ability to Obtain Future Financing

In their report dated April 14, 2008 on our financial statements as of and for the year ended December 31, 2007, our independent registered public accounting firm stated that our significant losses from operations and our limited financial resources raised substantial doubt about our ability to continue as a going concern. Since December 31, 2007, we have continued to experience losses from operations. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary debt or equity funding from outside sources, including the sale of our securities, and/or loans and grants from various financial institutions where possible.

We Have a Limited Operating History and if We are not Successful in Continuing to Grow Our Business, Then We may have to Scale Back or Even Cease Our Ongoing Business Operations.

We have a limited history of revenues from operations and have no individually significant tangible assets. We have yet to generate positive earnings and there can be no assurance that we will ever operate profitably. Our success is significantly dependent on a successful acquisition, drilling, completion and production program. Our operations will be subject to all the risks inherent in the establishment of a developing enterprise and the uncertainties arising from the absence of a significant operating history. We may be unable to locate recoverable reserves or operate on a profitable basis. If our business plan is not successful, and we are not able to operate profitably, investors may lose some or all of their investment in our company.

If We Are Unable to Retain the Services of Mr. Young or If We Are Unable to Successfully Recruit Qualified Managerial and Field Personnel Having Experience in Oil and Gas Exploration, We May Not Be Able to Continue Our Operations.

Our success depends to a significant extent upon the continued service of Mr. George S. Young, our President, Chief Executive Officer and a director. Loss of the services of Mr. Young could have a material adverse effect on our growth, revenues, and prospective business. We do not maintain key-man insurance on the life of Mr. Young. In addition, in order to successfully implement and manage our business plan, we will be dependent upon, among other things, successfully recruiting qualified managerial and field personnel having experience in the oil and gas exploration business. Competition for qualified individuals is intense. There can be no assurance that we will be able to find, attract and retain existing employees or that we will be able to find, attract and retain qualified personnel on acceptable terms.

Table of Contents

As Most of Our Properties are in the Exploration and Development Stage, There Can be no Assurance That We Will Establish Commercial Discoveries on Our Properties.

Exploration for economic reserves of oil and gas is subject to a number of risk factors. Few properties that are explored are ultimately developed into producing oil and/or gas wells. Most of our properties are in the exploration and development stage only and are without proven reserves of oil and gas. We may not establish commercial discoveries on any of our properties beyond that already discovered and developed at our Carbon County project.

The Potential Profitability of Oil and Gas Ventures Depends Upon Factors Beyond the Control of Our Company.

The potential profitability of oil and gas properties is dependent upon many factors beyond our control. For instance, world prices and markets for oil and gas are unpredictable, highly volatile, potentially subject to governmental fixing, pegging, controls, or any combination of these and other factors, and respond to changes in domestic, international, political, social, and economic environments. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for production and other expenses have become increasingly difficult, if not impossible, to project. In addition, adverse weather conditions can also hinder drilling operations. These changes and events may materially affect our financial performance.

Even if We are Able to Discover and Generate a Gas Well, There Can be no Assurance the Well Will Become Profitable

Even if we are able to discover coalbed methane gas or drill a gas well to capture any gas, a productive well may become uneconomic in the event water or other deleterious substances are encountered which impair or prevent the production of oil and/or gas from the well. In addition, production from any well may be unmarketable if it is impregnated with water or other deleterious substances. In addition, the marketability of oil and gas which may be acquired or discovered will be affected by numerous factors, including the proximity and capacity of oil and gas pipelines and processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production and environmental protection, all of which could result in greater expenses than revenue generated by the well.

Competition In The Oil And Gas Industry Is Highly Competitive And There Is No Assurance That We Will Be Successful In Acquiring The Leases.

The oil and gas industry is intensely competitive. We compete with numerous individuals and companies, including many major oil and gas companies, which have substantially greater technical, financial and operational resources and staffs. Accordingly, there is a high degree of competition for desirable oil and gas leases, suitable properties for drilling operations and necessary drilling equipment, as well as for access to funds. We cannot predict if the necessary funds can be raised or that any projected work will be completed. While we may seek additional oil and gas acreage, it may not become available, or if it is available for leasing, we may not be successful in acquiring the leases.

The Marketability of Natural Resources Will be Affected by Numerous Factors Beyond Our Control Which May Result in Us not Receiving an Adequate Return on Invested Capital to be Profitable or Viable.

The marketability of natural resources which may be acquired or discovered by us will be affected by numerous factors beyond our control. These factors include market fluctuations in oil and gas pricing and demand, the proximity and capacity of natural resource markets and processing equipment, governmental regulations, land tenure, land use, regulation concerning the importing and exporting of oil and gas and environmental protection regulations. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in us not receiving an adequate return on invested capital to be profitable or viable.

Table of Contents

Oil and Gas Operations are Subject to Comprehensive Regulation Which May Cause Substantial Delays or Require Capital Outlays in Excess of Those Anticipated Causing an Adverse Effect on Our Company.

Oil and gas operations are subject to federal, state, and local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. Oil and gas operations are also subject to federal, state, and local laws and regulations which seek to maintain health and safety standards by regulating the design and use of drilling methods and equipment. Various permits from government bodies are required for drilling operations to be conducted; no assurance can be given that such permits will be received. Environmental standards imposed by federal, provincial, or local authorities may be changed and any such changes may have material adverse effects on our activities. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on us. Additionally, we may be subject to liability for pollution or other environmental damages. To date we have not been required to spend any material amount on compliance with environmental regulations. However, we may be required to do so in future and this may affect our ability to expand or maintain our operations.

Exploration and Production Activities are Subject to Certain Environmental Regulations Which May Prevent or Delay the Commencement or Continuance of Our Operations.

In general, our exploration and production activities are subject to certain federal, state and local laws and regulations relating to environmental quality and pollution control. Such laws and regulations increase the costs of these activities and may prevent or delay the commencement or continuance of a given operation. Compliance with these laws and regulations has not had a material effect on our operations or financial condition to date. Specifically, we are subject to legislation regarding emissions into the environment, water discharges and storage and disposition of hazardous wastes. In addition, legislation has been enacted which requires well and facility sites to be abandoned and reclaimed to the satisfaction of state authorities. However, such laws and regulations are frequently changed and we are unable to predict the ultimate cost of compliance. Generally, environmental requirements do not appear to affect us any differently or to any greater or lesser extent than other companies in the industry. Our operating partners maintain insurance coverage customary to the industry; however, we are not fully insured against all possible environmental risks.

Exploratory Drilling Involves Many Risks and We May Become Liable for Pollution or Other Liabilities Which May Have an Adverse Effect on Our Financial Position.

Drilling operations generally involve a high degree of risk. Hazards such as unusual or unexpected geological formations, power outages, labor disruptions, blow-outs, sour gas leakage, fire, inability to obtain suitable or adequate machinery, equipment or labor, and other risks are involved. We may become subject to liability for pollution or hazards against which it cannot adequately insure or which it may elect not to insure. Incurring any such liability may have a material adverse effect on our financial position and operations.

Risks Relating to Our Current Financing Arrangements:

There Are a Large Number of Shares Underlying Our Convertible Debentures and Warrants That May be Available for Future Sale and the Sale of These Shares May Depress the Market Price of Our Common Stock.

As of April 14, 2008, we had 100,000,000 shares of common stock issued and outstanding, convertible debentures issued in June 2005, September 2005 and February 2007 outstanding that may be converted into an estimated 8,743,942 shares of common stock and outstanding warrants issued in June and September 2005, and February 2007 to purchase 1,766,667 shares of common stock. To the extent registered pursuant to our registration statements, all of these shares are issuable upon conversion of the June and September 2005, and February 2007 debentures and upon

exercise of our June and September 2005 and February 2007 warrants, may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock.

Table of Contents

The Issuance of Shares Upon Conversion of the Convertible Debentures and Exercise of Outstanding Warrants May Cause Immediate and Substantial Dilution to Our Existing Stockholders.

The issuance of shares upon conversion of the convertible debentures and exercise of warrants may result in substantial dilution to the interests of other stockholders since the selling stockholders may ultimately convert and sell the full amount issuable on conversion. Although the selling stockholders may not convert their convertible debentures and/or exercise their warrants if such conversion or exercise would cause them to own more than 4.99% of our outstanding common stock, this restriction does not prevent the selling stockholders from converting and/or exercising some of their holdings and then converting the rest of their holdings. In this way, the selling stockholders could sell more than this limit while never holding more than this limit. There is no upper limit on the number of shares that may be issued which will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

If We Are Required for any Reason to Repay Our Outstanding Secured Convertible Debentures, We Would Be Required to Deplete Our Working Capital, If Available, Or Raise Additional Funds. Our Failure to Repay the Secured Convertible Debentures, If Required, Could Result in Legal Action Against Us, Which Could Require the Sale of Substantial Assets.

Between 2005 and 2007, we entered into Securities Purchase Agreements for the sale of an aggregate of \$9,323,700 principal face amount of secured convertible debentures, of which \$1,253,139 remains outstanding. The secured convertible debentures are due and payable, with interest, as of December 31, 2007, and have not been converted into shares of our common stock. In addition, any event of default such as our failure to repay the principal when due, our failure to issue shares of common stock upon conversion by the holder, our failure to timely file a registration statement or have such registration statement declared effective, breach of any covenant, representation or warranty in the Securities Purchase Agreement or related convertible debentures, the assignment or appointment of a receiver to control a substantial part of our property or business, the filing of a money judgment, writ or similar process against our company in excess of \$50,000, the commencement of a bankruptcy, insolvency, reorganization or liquidation proceeding against our company and the delisting of our common stock could require the early repayment of the convertible debentures, including default interest on the outstanding principal balance of the convertible debentures if the default is not cured with the specified grace period. We anticipate that the full amount of the convertible debentures will be converted into shares of our common stock, in accordance with the terms of the convertible debentures. If we are required to repay the convertible debentures, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the convertible debentures when required, the debenture holders could commence legal action against us and foreclose on all of our assets to recover the amounts due. Any such action would require us to curtail or cease operations.

Risks Relating to Our Common Stock:

If We Fail to Remain Current on Our Reporting Requirements, We Could be Removed From the OTC Bulletin Board Which Would Limit the Ability of Broker-Dealers to Sell Our Securities and the Ability of Stockholders to Sell Their Securities in the Secondary Market.

Companies trading on the OTC Bulletin Board, such as us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

Our Common Stock is Subject to the "Penny Stock" Rules of the SEC and the Trading Market in Our Securities is Limited, Which Makes Transactions in Our Stock Cumbersome and May Reduce the Value of an Investment in Our Stock.

The Securities and Exchange Commission has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

that a broker or dealer approve a person's account for transactions in penny stocks; and
that broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

Table of Contents

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

obtain financial information and investment experience objectives of the person; and
make a reasonable determination that the transactions in penny stocks are suitable for that person
and the person has sufficient knowledge and experience in financial matters to be capable of
evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

sets forth the basis on which the broker or dealer made the suitability determination; and
that the broker or dealer received a signed, written agreement from the investor prior to the
transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

ITEM 2. DESCRIPTION OF PROPERTY.

Our principal executive offices are located at 1369 Forest Park Circle, Suite 202, Lafayette, Colorado 80026, and our telephone number is (303) 926-4415. In exchange for administrative services, we pay no rent for the 300 square foot suite we now occupy. We believe that our current office space and facilities are sufficient to meet our present needs and do not anticipate any difficulty securing alternative or additional space, as needed, on terms acceptable to us. In addition, we have the following oil and gas properties in connection with our principal business activities:

Carbon County Project, Utah

On September 12, 2005, we entered into an option agreement to purchase a gas field in Carbon County, Utah that was producing approximately 30 million cubic feet of natural gas per month. The field comprised of 5,953 gross acres (2,440 net acres), with four producing gas wells, and an additional four shut-in wells. The production was derived from the Ferron Sandstone formation, and the gas 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 yielded 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.

The purchase option called for an acquisition price of \$3 million, and we closed the purchase of the acquisition on March 13, 2006 with an industry partner, Thunderbird Energy Corporation ("Thunderbird") formerly MBA Resource Corp. of Canada. Thunderbird paid \$1.5 million and arranged third party financing of \$750,000 for part of our share of the \$3 million purchase price, in exchange for a 50% interest in the project. We previously paid a deposit toward the purchase price. We acquired a 50% interest in the project with only an additional payment of \$241,000. Together with Thunderbird we formed Gordon Creek, LLC a joint operating company, which was incorporated in the state of

Utah to carry out gas production and drilling operations as well as gas gathering activities for both the project gas and adjacent third party production.

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 \$202,220 as of December 31, 2007.

Table of Contents

Weston County Project, Wyoming

The Weston County play focus is initially on the development of a conventional oil field followed by exploration for conventional oil reservoirs in the Dakota and Minnelusa on 19,290 gross and 9,645 net acres. The South Coyote Creek Field thus far has no identifiable reserves but we hope that it will provide short-term cash flow to cover our overhead.

We acquired an option to purchase a 100% working interest consisting of 19,290 acres of oil and gas rights in Weston County, Wyoming for a total purchase price of \$750,000. We closed the purchase on June 15, 2004 and concluded a reevaluation of drilling production data and seismic surveys. This resulted in the delineation of 18 conventional oil and gas well locations on the property which are ready to drill that are potential extensions of an existing producing field called South Coyote Creek Field. South Coyote Creek Field was discovered and developed back in the 1960s and has produced approximately 3 million barrels of oil to date. We signed a joint venture agreement with JMG Exploration to drill our Weston County and Gordon Creek projects. Under the agreement, JMG Exploration was to receive a 50% interest in exchange for incurring \$2,000,000 in exploration and drilling expenditures on the two projects by November 7, 2005. In addition, JMG Exploration loaned \$1,500,000 to us with a short-term note. In connection with repayment of the JMG Exploration loan, we assigned the remaining 50% interest in the Weston County project to JMG Exploration, subject to our right to reacquire those interests for approximately \$391,000 by June 30, 2005, which right was exercised. As part of the full settlement of the \$1,500,000 note, JMG Exploration's commitment to spend \$2,000,000 in exploration and drilling activity by November 7, 2005 was terminated.

The Weston County play has two deeper horizons at drilling depths of 5,000 to 7,500 feet that add enormous oil and gas reserve potential to the acreage position we own. The Cretaceous Dakota and Permo-Penn Minnelusa are both highly productive sandstone reservoirs when found in trapping positions and have accounted for hundreds of millions of barrels of production in the Powder River Basin. Some of the largest Dakota and Minnelusa fields are located within 10 miles of the Company's acreage, including the 75 million barrel Raven Creek and 25 million barrel Donkey Creek.

The Dakota and Minnelusa are also both amenable to seismic exploration and can be resolved clearly with 3-D seismic. We have access to 200 miles of a regional 2-D seismic data base that covers the Weston County play area. On the basis of this seismic, a series of prospects in the Dakota and Minnelusa have been identified with the potential for up to 50 million barrels of oil reserves. One of these prospects is a Minnelusa field with only one producer drilled to date that appears to be on the edge of a much larger accumulation.

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 during 2007. As of December 31, 2007, we took an impairment on this property in the amount of \$1,929,752. This amount was determined on the basis of an evaluation of the dates of relinquishment that are attendant with the leases comprising the acreage within the project (many of which are in 2008), as well as the difficulty which the Company has had in financing in general for its exploration projects. In order to extend the dates of the leases or enter into new leases, considerable capital could have been required. This amount was also a function of the new information gathered from the recent sale by JMG of its interest in this project to Thunderbird Energy Corporation, and an evaluation of the rising costs of drilling that have been incurred by the industry since the date of the acquisition of the property, which in turn have impacted on the economic value of the acreage. In addition, the Company has also anticipated (and has determined) that it will have to sell all or a portion of its interest in this project in order to effectuate payment and settlement of its convertible debentures, thus also impacting the potential to realize higher values over a much longer period of time.

Carter Creek Project, Wyoming

The Carter Creek Project targets an unconventional play for oil on 14,196 gross and 9,959 net acres from fractured shales in the Niobrara and Mowry.

In January 2004, we acquired a 100% working interest of 10,678 acres known as the Carter Creek Project in the southern Powder River Basin of Wyoming for \$223,000. This project was discovered by an industry partner.

The Carter Creek Project offers large-scale reserve potential from a section of over-pressured Lower Cretaceous zones including the Niobrara, Turner (Frontier), Mowry, Muddy, and the normally pressured Dakota formations. All these zones are currently productive in the region of the Carter Creek Project. Drilling depths to the Dakota range from 10,000 feet to 11,500 feet. The primary objectives in the Carter Creek Project are the Niobrara and Mowry formations which are both thick hydrocarbon-rich shale units. These shale units are referred to as “source beds” because under sufficient heat and pressure they are the source of petroleum that feeds the conventional oil and gas traps in a given basin. In this case, the source beds also act as oil reservoirs due to fracturing that has been induced along shear zones created by regional tectonic forces. Within these shear zones are fractures which provide both storage of oil and gas, as well as the permeability necessary for them to flow to a well bore. The shear zones also provide a pathway for thermal energy from deeper in the basin to flow into a local area and promote oil generation and maturation, thus improving the hydrocarbon recovery potential within the shear zone. Over pressuring is caused by hydrocarbon generation within the source beds which also contributes to the fracture system.

Table of Contents

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 as of April 23, 2007, we dropped the project due to capital constraints and inability to move the project forward with drilling. We therefore relinquished our interest in this project and recorded a loss in the amount of \$2,075,368.

Gordon Creek Project, Utah

In January 2004, we acquired an option to purchase 5,242 acres (3,184 net) known as the Gordon Creek Project. We closed the purchase for \$288,000 in July 2004. The Gordon Creek Project is located in Carbon County, eastern Utah.

The Gordon Creek Project targets natural gas reserves in two large unconventional plays: (1) the Cretaceous Ferron sandstone play and (2) the Cretaceous Emery coal bed natural gas play. The Cretaceous Ferron sandstone play is established by the Clear Creek Field which has had cumulative production of 137 Bcf from 16 wells or an average of 8.6 Bcf per well to date. The Clear Creek Field is located 7 miles to the west of the Fellows acreage.

In addition to the Ferron sandstone, the Gordon Creek project has potential in the Emery coal. While the Emery coal play is in an early stage it may have similar potential to the Drunkard's Wash field which produces from the Ferron coal. The Drunkard's Wash Field is located 6 miles to the southeast of our Gordon Creek land holdings. Our project personnel were previously involved in drilling for River Gas Corporation in the Drunkard's Wash field.

As previously mentioned, we have signed a joint venture agreement with JMG Exploration to drill our Weston County and Gordon Creek projects. This agreement was amended in June 2005 and we assigned the remaining 50% interest in the Gordon Creek project to JMG Exploration, subject to our rights to reacquire such interest for \$390,000 which has been exercised. As of December 2006 Thunderbird, our partner in the Carbon County project, has negotiated the purchase of JMG's half of the Weston and Gordon Creek projects.

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 as of December 31, 2007, we took a write down on the project due to capital constraints in the amount of \$2,085,528. This amount was determined on the basis of an evaluation of the dates of relinquishment that are attendant with the leases comprising the acreage within the project (many of which are in 2008), as well as the difficulty which the Company has had in financing in general for its exploration projects. In order to extend the dates of the leases or enter into new leases, considerable capital could have been required. This amount was also a function of the new information gathered from the recent sale by JMG of its interest in this project to Thunderbird Energy Corporation, and an evaluation of the rising costs of drilling that have been incurred by the industry since the date of the acquisition of the property, which in turn have impacted on the economic value of the acreage. In addition, the Company has also anticipated (and has determined) that it will have to sell all or a portion of its interest in this project in order to effectuate payment and settlement of its convertible debentures, thus also impacting the potential to realize higher values over a much longer period of time.

Bacaroo Project, Baca County, Colorado

The Bacaroo Project targets conventional oil and gas reserves from prolific reservoirs in the Pennsylvanian Topeka, Lansing-Kansas City and Morrow formations as well as the Mississippian Keyes formations. The Bacaroo Project has been developed by Thomasson Partner Associates, Inc. and is located in Baca County, Colorado on the northwest flank of the greater Anadarko Basin. Nearby analog fields include the Morrow Stateline and Interstate fields with production of 25 to 50 MMBO; and the Keyes Dome, which has produced 1 TCF of gas from the Mississippian Keyes section. Currently, we have six prospects undergoing lease acquisition. Three of these prospects have multiple objectives with seismically and subsurface defined structural or stratigraphic traps, and are adjacent to or on-trend with proven production. All of the selected drill sites are near to or offsetting excellent shows of oil and gas with

drilling depths of objectives ranging from 1,200 to 5,000 feet. The estimated initial cost to acquire 34,720 acres and drill eight evaluation wells is \$2.3 million.

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.

Table of Contents

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.

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 relinquish our rights related thereto. Accordingly, we recorded a charge in the amount of \$1,873,295 for the year ended December 31, 2006.

Overthrust Coal Bed Methane Project, 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.

As of December 31, 2006, due to a technical reanalysis of the project, new data relating to seismic work done in the area, capital constraints, and the inability to renegotiate with Quaneco, LLC and the leaseholders a more workable framework to carry forward with this early-stage project, we determined to relinquish our rights to the project and pursue more advance-stage projects in producing areas in the Uintah Basin and elsewhere. As such, we recorded a charge in the amount of \$1,025,092 for the year ended December 31, 2006.

Deposits on Other Projects

During the year ended December 31, 2006, the Company also recorded charges of approximately \$391,000 related to the relinquishment of options for cash deposits previously made on certain other properties.

Summary of Our Current Projects, Acreage Holdings, and Wells

Project	Objective	Play Type	Gross Acres	Net Acres
Bacaroo Project, Colorado				
		Conventional Oil	3,440	3,440
Weston County Project, Wyoming				
	Turner	Conventional Oil	19,290	9,645
	Dakota	Conventional Oil		
	Minnelusa	Conventional Oil		
Gordon Creek, Utah				
	Ferron Sandstone	Tight Sands Gas	5,242	3,184
	Emery Coal	Coal Bed Natural Gas		
		Totals	27,972	16,269

Table of Contents

ITEM 3. 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 disclosed below, 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.

We were sued in the Sixth Judicial District Court, Garfield County, Utah on November 10, 2004, by Midway Perforating and Drilling, Inc. in a complaint alleging nonpayment of charges connected with drilling the Johns Valley 10-33C2 well in Garfield County, UT. The complaint seeks damages of \$100,000 and costs of \$10,000. We filed our Answer and Counterclaim on January 19, 2005. We plan to vigorously defend this case because we believe that the plaintiff failed to follow our instructions to use appropriate equipment for controlling deviation of the wellbore, and that such failure caused the well to be unusable. The suit is currently in its discovery stages. Although we believe we have a strong defense and counterclaim, we cannot predict the final outcome of the suit.

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 above. The settlement agreement releases all claims by either party except; \$83,358 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.

On October 19, 2007, we entered into a settlement agreement with Alpha Capital in connection with the May 2005 equity financing which provides for the issuance of the equivalent of \$200,000 in common stock should an increase in authorized shares become effective, or \$200,000 in stock in cash in the event we enter into a merger with a third party as contemplated by the Dolar transaction.

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

None.

Table of Contents

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Market Information

Our common stock is quoted on the OTC Bulletin Board under the symbol "FLWE". For the periods indicated, the following table sets forth the high and low bid prices per share of common stock. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

	High (\$)	Low (\$)
Fiscal Year 2006		
First Quarter	0.60	0.30
Second Quarter	0.44	0.15
Third Quarter	0.43	0.14
Fourth Quarter	0.19	0.07
Fiscal Year 2007		
First Quarter	0.10	0.03
Second Quarter	0.09	0.02
Third Quarter	0.05	0.02
Fourth Quarter	0.06	0.02
Fiscal Year 2008		
First Quarter	0.03	0.02
Second Quarter (1)	0.02	0.02

(1) As of April 14, 2008

Holders

As of April 14, 2008, we had approximately 87 holders of our common stock. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies. The transfer agent of our common stock is Pacific Stock Transfer Company, 500 E. Warm Springs Road, Suite 240, Las Vegas, Nevada 89119.

Description of Securities

The authorized capital stock of the Company consists of 100,000,000 of the common stock, at \$0.001 par value, and 25,000,000 shares of preferred stock, at \$0.001 par value. The shares of preferred stock may be issued in one or more series. The designations, powers, rights, preferences, qualifications, restrictions, and limitations of each series of preferred stock shall be established from time to time by the Board of Directors in accordance with Colorado law.

Dividends

We have never declared or paid any cash dividends on our common stock. We do not anticipate paying any cash dividends to stockholders in the foreseeable future. In addition, any future determination to pay cash dividends will be

at the discretion of the Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements, and such other factors as the Board of Directors deem relevant.

Recent Sale of Unregistered Securities

Unless otherwise noted, the issuances noted below are all considered exempt from registration by reason of Section 4(2) of the Securities Act of 1933, as amended.

In February 2007, we issued all the remaining authorized common stock of the Company, in connection with the convertible debenture restructuring, during which we issued 5,454,546 and 6,458,063 shares of restricted common stock for forbearance and commitment fees. Refer to Note 5 – Convertible Debentures, for more discussion.

Table of Contents

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The following information should be read in conjunction with the consolidated financial statements and the notes thereto contained elsewhere in this report. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Information in this Item 6, "Management's Discussion and Analysis or Plan of Operation," and elsewhere in this 10-KSB that does not consist of historical facts, are "forward-looking statements." Statements accompanied or qualified by, or containing words such as "may," "will," "should," "believes," "expects," "intends," "plans," "projects," "estimates," "predicts," "potential," "outlook," "forecast," "anticipates," "presume," and "assume" constitute forward-looking statements, and as such, are not a guarantee of future performance. The statements involve factors, risks and uncertainties including those discussed in the "Risk Factors" section contained elsewhere in this report, the impact or occurrence of which can cause actual results to differ materially from the expected results described in such statements. Risks and uncertainties can include, among others, fluctuations in general business cycles and changing economic conditions; changing product demand and industry capacity; increased competition and pricing pressures; advances in technology that can reduce the demand for the Company's products, as well as other factors, many or all of which may be beyond the Company's control. Consequently, investors should not place undue reliance on forward-looking statements as predictive of future results. The Company disclaims any obligation to update the forward-looking statements in this report.

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, and will continue accessing projects informally, without having any first right to any project.

Operations Plan

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, farmout, or option and participation in the drilling of oil and gas wells. We 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 obtain 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 (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.

Table of Contents

Recent Activity

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 4 – Note Receivable, below. The settlement agreement releases all claims by either party except; \$83,358 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.

On October 30 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 either 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.

The operations we plan for the balance of 2008 include exploring leases on our remaining projects, development drilling on the Bacaroo acreage, seeking to acquire and explore additional property, and implementing production on one or more of our projects. Our goal is to discover and continue to produce substantial commercial quantities of oil and gas, including coalbed methane, although no assurances can be given that commercial quantities are available, if at all.

Liquidity and Capital Resources

In 2007, we incurred a loss of approximately \$9,316,000. At December 31, 2007, we had approximately \$4,000 of cash and cash equivalents, a \$202,000 receivable from the sale of the Carbon County project, and a \$243,000 receivable from the settlement with Creston Resources Ltd. Our total current assets were \$449,000, and current liabilities were \$3,567,000, including accounts payable and the current portions of interest payable, notes payable and convertible debentures payable.

Based upon our significant operating losses from inception, there is substantial doubt as to our ability to continue as a going concern. Our audited 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 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.

To fully carry out our business plans we need to 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 maintain 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.

Financing and Restructuring

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.

Table of Contents

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 \$5,501,199.95 in face amount of debentures maturing September 16, 2008 (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. We could pay this amortization payment in 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, 2008, 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, 2008 (the “September Debentures” and together with the June Debentures, the “Old 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. We could pay this amortization payment in 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 2,172,000 shares of restricted common stock, exercisable at a per share of \$0.80 (the “September Warrants” and together with the June Warrants, the “Old Warrants”). 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 Old Debentures and 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 \$333,333.33 and Crescent paid \$250,000 to JGB for the assignment;

20

Table of Contents

- 2) We entered into a settlement agreement with JGB for the sum of \$83,333.33. 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 \$608,433.15 in principal amount of the Old Debentures. Such Monthly Redemption Shares were issued as payment for monthly redemptions owed to Palisades on December 1, 2006 and January 1, 2007 and 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. As a result of the Monthly Redemption Shares, the exercise price of the Old Warrants was reduced to \$0.0866, which Palisades exercised on a cashless basis and received 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.

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.

New 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 New Debentures were paid in full in cash on August 6, 2007 in connection with the sale of the Company's interest in the Carbon County project.

Table of Contents

Results of Operations

Previous Operations. 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.

During the year ended December 31, 2007 we had gross revenues of \$108,000 from our Carbon County project, compared to \$383,000 for the year ended December 31, 2006. This difference is primarily due to the fact that we sold our interest in mid 2007.

Revenues. For the year ended December 31, 2007, we had revenues of \$31,000 compared to \$41,000 in 2006, which is comparable.

Operating Expenses. Operating expenses for 2007 were approximately \$7,410,000 as compared to \$5,805,000 for 2006. These expenses primarily consisted of the following:

In 2007, we incurred \$7,000 in expenses related to exploration and production net of discontinued operations from the sale of the Carbon County project. Our general and administrative expense were approximately \$1,277,000, which included in legal, consultant, and audit fees, and other costs including rent, insurance, payroll, payroll taxes, travel, and stock issuance costs.

Also during the year ended December 31, 2007, we recorded charges of approximately \$6,126,000 related to the relinquishment of the Circus project option and the write-down of the Gordon Creek and Weston County projects, in anticipation of joint venturing them, and more appropriately representing our position.

Interest Expense. Our 2007 interest expense was approximately \$2,265,000, down by \$456,000 from 2006 of \$2,722,000 which is due to additional convertible debenture related interest, issuance cost, and discount expense incurred in 2006.

Other Expenses. We also recorded \$1,279,000 in expenses relating to a net loss on extinguishment of debt in connection with the restructuring of the debentures, and other losses including \$200,000 in connection with the Alpha Capital settlement.

Net Income or Loss. For the year ended December 31, 2007, our net loss from operations was \$9,313,217. With a \$2,815 net loss from discontinued operations relating to the Carbon County sale, our total for the year was \$9,315,952, including discontinued operations. For the year ended December 31, 2006, we had a net loss of \$8,096,947 from operations and \$493,900 from our discontinued operations.

Table of Contents

ITEM 7. FINANCIAL STATEMENTS.

FELLOWS ENERGY LTD.

INDEX TO FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	24
<u>Balance Sheets</u>	25
<u>Statements of Operations</u>	26
<u>Statements of Changes in Stockholders' Equity</u>	27
<u>Statements of Cash Flows</u>	28
<u>Notes to Financial Statements</u>	29

Table of Contents

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
and Stockholders of
Fellows Energy Ltd.

We have audited the accompanying balance sheet of Fellows Energy Ltd. as of December 31, 2007, and the related statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Company as of December 31, 2006, and for the year then ended. Those financial statements were audited by other auditors whose report, dated April 17, 2007, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of Fellows Energy Ltd. as of December 31, 2007, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred recurring operating losses and had an accumulated deficit at December 31, 2007 of \$25,451,896. These conditions raise substantial doubt about the Company's ability to continue as a going concern without raising sufficient additional financing. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that would be necessary to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of this uncertainty.

KELLY ALLEN & ASSOCIATES
Accountancy Corporation

Riverside, California
April 14, 2008

Report of Prior Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Fellows Energy Ltd.

We have audited the accompanying balance sheets of Fellows Energy Ltd., as of December 31, 2006 and 2005, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fellows Energy Ltd. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company has significant losses from operations which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Mendoza Berger & Company
Irvine, California
April 17, 2007

Table of ContentsFellows Energy Ltd.
Balance Sheets

	Year Ended December 31, 2007	Year Ended December 31, 2006
Assets		
Cash and cash equivalents	\$ 3,654	\$ 179,926
Interest receivable	—	2,568
Accounts receivable	202,220	80,258
Settlement receivable	243,104	233,634
Total current assets	448,978	496,386
Proved and unproved oil & gas property	951,140	7,468,809
Equipment, net of \$44,387 and \$118,651 accumulated depreciation respectively	42,871	1,509,932
Restricted cash	160,000	160,000
Deferred financing costs	—	228,758
Total assets	\$ 1,602,989	\$ 9,863,885
Liabilities And Stockholders' Equity		
Accounts payable	\$ 395,147	\$ 359,662
Other accrued liabilities	230,838	99,167
Taxes payable	3,564	9,433
Interest payable current portion	291,100	205,700
Notes payable current portion	393,381	1,583,111
Convertible debenture current portion	2,253,139	1,608,433
Total current liabilities	3,567,169	3,865,506
Interest payable – net of current portion	358,234	154,819
Notes payable – related party	2,753,573	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; 100,000,000 and 73,447,619 outstanding	100,000	73,447
Additional paid-in capital	20,328,962	18,484,181
Stock issuance obligation	—	61,055
Stock pledged as collateral	(53,053)	(185,684)
Accumulated deficit	(25,451,896)	(16,135,944)
Total stockholders' equity	(5,075,987)	2,297,055
Total liabilities and stockholders' equity	\$ 1,602,989	\$ 9,863,885

See accompanying notes.

Table of ContentsFellows Energy Ltd.
Statements of Operations

	Year Ended December 31, 2007	Year Ended December 31, 2006
Revenue	\$ 31,169	\$ 40,492
Operating expense		
Exploration and production	6,918	150,289
General and administrative	1,276,678	2,365,137
Relinquishment of Property	6,126,262	3,289,387
	(7,378,689)	(5,764,321)
Other income (expense)		
Interest expense	(2,265,417)	(2,721,506)
Loss on extinguishment of debt, net	(958,152)	—
Miscellaneous income (expense)	(321,178)	388,880
Total other expense	(3,544,747)	(2,332,626)
Loss from continuing operations before income tax	(10,923,436)	(8,096,947)
Income tax expense		—
Deferred tax benefit		—
Loss from continuing operations	\$ (10,923,436)	\$ (8,096,947)
Revenue from discontinued operations	108,344	383,269
Expenses from discontinued operations	(111,159)	(877,169)
Gain on sale of property	1,610,299	—
Loss from discontinued operations	1,607,484	(493,900)
Other comprehensive income (loss)		
Unrealized holding gains on marketable securities		— 3,561
Comprehensive loss	\$ (9,315,952)	\$ (8,587,286)
Basic and diluted loss per share	\$ (0.10)	\$ (0.14)
Basic and diluted weighted average shares outstanding	96,925,784	61,726,047

See accompanying notes.

Table of Contents

Fellows Energy Ltd.
Statements of Changes in Stockholders' Equity
December 31, 2007

	Common Stock Shares	Stock Amount	Additional Paid-In Capital	Stock Obligation/ Pledged	Accumulated Deficit	Total
Balance, December 31, 2005	52,545,329	52,545	15,973,152	(1,665,000)	(7,548,658)	6,812,039
Issue 617,433 shares for debenture redemption	617,433	617	228,599	—	—	229,216
Issue 1,341,500 shares for debenture redemption	1,341,500	1,342	357,375	—	—	358,717
Issue 554,697 shares for debenture redemption	554,697	555	151,743	—	—	152,298
Issue 751,818 shares for debenture redemption	751,818	752	205,667	—	—	206,419
Issue 1,425,192 shares for debenture redemption	1,425,192	1,425	357,292	—	—	358,717
Issue 700,000 shares under drilling agreement	700,000	700	195,300	—	—	196,000
Issue 861,921 shares pursuant to ratchet down rights	861,921	862	216,084	—	—	216,946
Issue 790,000 pursuant to financing agreement	790,000	790	252,010	—	—	252,800
Issue 1,737,976 shares for debenture redemption	1,737,976	1,738	356,979	—	—	358,717
Issue 48,980 shares pursuant to financing agreement	48,980	49	11,973	—	—	12,022
Issue 118,057 shares for debenture redemption	118,057	118	32,223	—	—	32,341
Obligation to issue 50,000 shares pursuant to financing agreement	—	—	—	22,500	—	22,500
Obligation to issue 250,000 shares to business advisors	—	—	—	61,055	—	61,055
Issue 137,257 for debenture redemption	137,257	137	39,063	—	—	39,200
Issue 50,000 shares pursuant to financing agreement	50,000	50	22,450	(22,500)	—	—
Issue 1,898,013 shares for debenture redemption	1,898,013	1,898	356,819	—	—	358,717
Issue 250,000 shares pursuant to financing agreement	250,000	250	62,250	—	—	62,500
Issue 2,586,369 shares for debenture redemption	2,586,369	2,586	356,130	—	—	358,716

Edgar Filing: FELLOWS ENERGY LTD - Form 10KSB/A

Issue 118,057 shares for debenture redemption	118,057	118	14,108	—	—	14,226
Issue 487,070 shares for debenture redemption	487,070	487	58,204	—	—	58,691
Issue 800,000 shares to business advisors	800,000	800	107,200	—	—	108,000
Issue 3,130,267 shares for debenture redemption	3,130,267	3,130	355,587	—	—	358,717
Issue 1,083,607 shares pursuant to ratchet down rights	1,083,607	1,084	149,213	—	—	150,297
Issue 1,414,076 shares for debenture redemption	1,414,076	1,414	104,076	—	—	105,490
Mark to market of shares held as collateral	—	—	(1,479,316)	1,479,316	—	—
Comprehensive loss	—	—	—	—	(8,587,286)	(8,587,286)
Balance, December 31, 2006	73,447,619	73,447	18,484,181	(124,629)	(16,135,944)	2,297,055
Issue 1,075,343 shares for debenture redemption	1,075,343	1,076	64,627	—	—	65,703
Issue 2,000,000 shares in professional fees for restructuring debentures	2,000,000	2,000	118,000	—	—	120,000
Issue 118,057 shares for debenture redemption	118,057	118	7,095	—	—	7,213
Issue 9,996,547 shares for debenture restructuring	9,996,547	9,997	598,435	—	—	608,432
Issue 5,454,546 shares for debenture restructuring	5,454,546	5,455	484,455	—	—	489,909
Issue 1,449,825 shares for debenture restructuring	1,449,825	1,450	129,034	—	—	130,484
Issue 6,458,063 shares for debenture restructuring	6,458,063	6,458	574,767	—	—	581,225
Mark to market of shares held as collateral	—	—	(131,632)	71,756	—	(60,056)
Comprehensive loss	—	—	—	—	(9,315,952)	(9,315,952)
Balance, December 31, 2007	100,000,000	100,000	20,328,962	(53,053)	(25,451,896)	(5,075,987)

See accompanying notes.

Table of ContentsFellows Energy Ltd.
Statements of Cash Flows

b

	Year Ended December 31, 2007	Year Ended December 31, 2006
Cash flow from operating activities:		
Net income (loss)	\$ (9,315,952)	\$ (8,590,847)
Adjustments to reconcile net income to net cash used in operating activities:		
Gain on sale of marketable securities	—	50,530
Gain on disposition of project	(1,610,299)	
Gain on extinguishment of debt	(244,466)	
Debt issue costs and discount amortization	1,746,925	1,435,451
Depreciation	82,050	100,233
Expenses paid with stock issuance	1,202,617	653,821
Relinquishment of property	6,429,688	3,289,387
Changes in operating assets and liabilities:		
Receivables	157,826	(117,235)
Deposits on unproved oil and gas property	—	716,000
Interest payable	288,815	234,819
Accounts payable & other liabilities	268,595	242,147
Net cash provided by (used in) operating activities	(994,201)	(1,985,694)
Cash flow from investing activities:		
Proceeds from sale of marketable securities	—	355,026
Proceeds from sale of unproved oil and gas property	34,780	—
Unproved oil and gas property additions	(13,957)	(405,364)
Restricted cash	—	75,000
Disposition of equipment	12,779	(1,340,747)
Net cash provided by (used in) investing activities	33,602	(1,316,085)
Cash flow from financing activities:		
Proceeds from issuance of convertible debenture	714,500	—
Discount on convertible debenture	(429,000)	—
Payments on convertible debenture	—	(857,399)
Borrowings on note payable	1,117,537	4,449,962
Payments on notes payable	(618,710)	(458,416)
Net cash provided by (used in) financing activities:	784,327	3,134,147
Net increase (decrease) in cash and equivalents	(176,272)	(167,632)
Cash and equivalents at beginning of period	179,926	347,558
Cash and equivalents at end of period	\$ 3,654	\$ 179,926
Supplemental Disclosure of Cash Flow and Non-cash Investing and Financing Activity:		
Income tax paid	\$ —	\$ —
Interest paid	\$ 72,533	\$ —

Non cash:

Contribution of oil & gas interest in exchange for stock issuance	\$	—	\$ 196,000
Convertible debenture paid with stock issuance	\$	681,350	\$ 2,950,982
Stock issuance in exchange for Legal and advisory services	\$	120,000	\$ 61,055
Fees paid with stock	\$	1,202,618	\$ 85,000

See accompanying notes.

Table of Contents

Fellows Energy Ltd.
Notes to Financial Statements
December 31, 2007

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Fellows Energy Ltd. (“the Company” or “we” or “our” or “us”) is engaged in the exploration, acquisition, development, production and sale of natural gas, crude oil and natural gas liquids primarily from conventional reservoirs within the western United States and beyond. We 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 in Lafayette, Colorado.

The accompanying financial statements for the periods of December 31, 2007, 2006, and are presented in accordance with generally accepted accounting principles in the United States of America (“US GAAP”). These should be read in conjunction 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 March 31, 2007, June 30, 2007 and September 30, 2007. 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.

The Company’s efforts have been principally devoted to the raising of capital, organizational infrastructure development, and the acquisition of oil and gas properties for the purpose of future extraction of resources. As shown in the accompanying financial statements, we have incurred operating losses since inception. As of December 31, 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. We plan to fund our 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.

Cash Equivalents

We consider all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents. At December 31, 2007 and 2006, we had approximately \$4,000 and \$180,000 in cash equivalents respectively.

Restricted Cash

Restricted cash is cash balances held in the form of bank certificates of deposit, and with the state of Utah as a reclamation bond. At December 31, 2007 and 2006, \$160,000 and \$160,000 respectively, of restricted cash was on deposit with custodians to secure reclamation of oil and gas property.

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 Property

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 December 31, 2007.

Table of Contents

Fellows Energy Ltd.
Notes to Financial Statements
December 31, 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 will 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) Properties

Unproved properties are assessed periodically, and at least annually, to determine whether or not they have been impaired. We provide an impairment allowance on unproved property at any time we determine that a property will not be developed. At December 31, 2007, we took a write down on our Gordon Creek and Weston County projects in the amounts of \$2,085,528 and \$1,929,752 respectively, in accordance with FAS 19. In determining an impairment of the unproved properties, we considered such factors our commitment of project personnel and cost being incurred to develop as well as the existence of our active agreements with our venture partners and others, as well as the projected undiscounted cash flows from the projects. The Company did not surrender or abandon any of its unproved properties during the year ended December 31, 2007.

The amounts were determined on the basis of an evaluation of the dates of relinquishment that are attendant with the leases comprising the acreage within the project (many of which are in 2008), as well as the difficulty which the Company has had in financing in general for its exploration projects. In order to extend the dates of the leases or enter into new leases, considerable capital could have been required. This amount was also a function of the new information gathered from the recent sale by JMG of its interest in this project to Thunderbird Energy Corporation, and an evaluation of the rising costs of drilling that have been incurred by the industry since the date of the acquisition of the property, which in turn have impacted on the economic value of the acreage. In addition, the Company has also anticipated (and has determined) that it will have to sell all or a portion of its interest in this project in order to effectuate payment and settlement of its convertible debentures, thus also impacting the potential to realize higher values over a much longer period of time.

Sales of Producing and Nonproducing 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 is 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. At December 31, 2007, the Company had no asset retirement obligation or related accretion expense.

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.

Table of Contents

Fellows Energy Ltd.
Notes to Financial Statements
December 31, 2007

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 December 31, 2007, all weighted average shares outstanding have been included in the calculation. The Company had no stock-option or warrant obligations that were dilutive as of December 31, 2007.

Comprehensive Loss

We apply Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income. Statement 130 establishes standards for the reporting and display of comprehensive income or loss, requiring its components to be reported in a financial statement. The Company had zero unrealized gains or losses as of December 31, 2007 and \$3,561 unrealized gains as of December 31, 2006.

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 we adopt these new requirements 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 will have 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.

Table of Contents

Fellows Energy Ltd.
Notes to Financial Statements
December 31, 2007

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 purpose of the incentive stock option plan is to attract and retain qualified and competent officers, employees and directors. 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. The options vest six months from the date of grant. On November 1, 2006, we granted an option for 300,000 shares to our Vice President of Business Development. The options vest six months from the date of grant.

Effective the date of the Company’s restructure of certain of its debentures on February 15, 2007, , 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 (See Note 9). Therefore, all the options in the plan have been returned to the treasury of the option plan.

Note 2 – 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 December 31, 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.

Note 3 – 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 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 Financial Statements
December 31, 2007

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 advances owed to us. The settlement agreement releases all claims by either party except; \$83,358 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 payments commenced on October 15, 2007, and remain payable on the 15th of each month thereafter.

Note 4 – Notes Payable

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. The parties further acknowledge that the Company has issued all of its authorized shares and that such warrants would not be exercisable only if an increase in the authorized shares occurs. The interest rate on this note is 18% per annum. As of December 31, 2007, we owed \$393,000 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 June 30, 2007, we had paid \$226,000 towards the principal and interest. On August 6, 2007, and in connection with the sale of our interests in the Carbon County project, the note was retired.

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 June 30, 2007, we had paid \$170,000 towards the principal and interest. On August 6, 2007, and in connection with the sale of our interests in the Carbon County project the note was retired.

As of December 31, 2007, we owed two unsecured notes of \$2,153,573 and \$600,000. The notes accrue interest at a rate of 10% and 18% per annum, respectively, compounded daily to an entity controlled by our CEO. As of December 31, 2007, the accrued interest was \$358,234.

Notes Payable	December 31,	
	2007	2006
Notes payable current portion		
Note for project acquisition - March 2006	—	322,000
Note for project development - May 2006	—	361,000
Note for project development - Dec 2006	393,000	900,000
	393,000	1,583,000
Notes payable long term portion		
Note from related party	2,754,000	1,733,000
Note for project acquisition - May 2006	—	428,000

2,754,000 2,161,000

Note 5 – 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 December 31, 2007, the debentures and accrued interest due was \$1,285,700.

34

Table of Contents

Fellows Energy Ltd.
Notes to Financial Statements
December 31, 2007

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 16, 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, 2008, 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.

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"):

35

Table of Contents

Fellows Energy Ltd.
Notes to Financial Statements
December 31, 2007

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 there under 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.

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. These have been accrued for at fair market value.

Table of Contents

Fellows Energy Ltd.
Notes to Financial Statements
December 31, 2007

The New Debentures were paid in full in cash on August 6, 2007 in connection with the sale of the Company's interest in the Carbon County project.

Note 6 – 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, third, or fourth quarter of 2007, as all authorized stock is issued and outstanding.

Note 7 – Related Party Transactions

At June 30, 2007, we owed two unsecured notes of \$2,153,573 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. As of December 31, 2007, accrued interest was \$358,234.

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 December 31, 2007, we owed \$393,000 on the note.

Note 8 – Property Reserves (Unaudited)

The following reserve quantity and future net cash flow information represents proved reserves located in the State of Utah in the United States. The reserves as of December 31, 2006 have been estimated by MHA Petroleum Consultants, independent petroleum engineers. We did not have any proved reserves in the State of Utah at December 31, 2005, nor did we in closing out 2007 due to the sale of our Carbon County project in mid 2007. The determination of oil and gas reserves is based on estimates, which are highly complex and interpretive. The estimates are subject to continuing change as additional information becomes available.

Table of Contents

Fellows Energy Ltd.
Notes to Financial Statements
December 31, 2007

Reserve Quantities

Table 1	December	December
Gas reserves (in MMcf)	31, 2007	31, 2006
Proven developed producing reserves	—	1,362
Proven developed non-producing reserves	—	2,231
Proven undeveloped reserves	—	6,931
Total proved reserves	—	10,524

Analysis of Changes in Proved Reserves

Estimated quantities of proved developed reserves, as well as the changes in proved developed reserves during the periods indicated, are presented in the following table:

Table 2	Gas
Changes in Proved Developed Reserves	Reserves (MMcf)
Proved developed reserves at December 31, 2006	10,455
Revisions of previous estimates	—
Extensions and discoveries	—
Sales of reserves in place	(10,455)
Improved recovery	—
Purchase of reserves	—
Production	—
Proved developed reserves at December 31, 2007	—

Standardized Measure of Discounted Future Net Cash Flows

The standardized measure of discounted future net cash flows is prepared under the guidelines set forth by the Securities and Exchange Commission (SEC) that require the calculation to be performed using year-end oil and gas prices. As there were no proven reserves as of December 31, 2007, we have not compiled a projection of discounted future net cash flows for that period. Future production costs are based on year-end costs and include severance taxes.

Table 3 (In thousands)	December	December
	31, 2007	31, 2006
Future cash flows	\$ —	\$ 76,363
Future production costs	—	(1,680)
Future development costs	—)

		(27,750
Future income taxes	—	(28,022)
Future net cash flows before discount	\$	—\$ 18,911
10% discount to present value	—	(1,891)
Standardized measure of discounted		
Future net cash flows	\$	—\$ 17,020

38

Table of Contents

Fellows Energy Ltd.
Notes to Financial Statements
December 31, 2007

Volumes, Prices and Operating Expenses

The following table presents information regarding the production volumes, average sales prices received and average production costs associated with our sales of natural gas and oil for the periods indicated.

	December 31, 2007	December 31, 2006
Table 4 Production and Sales Data		
Natural gas production (Mcf)	\$ —	\$ 235,378
Average sales price per Mcf		5.5
Expenses per Mcf		
Lease operating	\$ —	\$ 1.91
Gathering	\$ —	\$ 0.94
General and administrative	\$ —	\$ 9.73
Depletion and accretion	\$ —	\$.31

Development, Exploration and Acquisition Capital Expenditures

During the year ended December 31, 2007, due to our discontinued operations of Carbon County, we spent \$0 compared to \$1,027,000 as of December 31, 2006 in development and exploration activities. As of December 31, 2006, we held a working interest of approximately 46% in 5,953 gross acres (2,440 net acres) located in Carbon County, Utah before it was sold in mid 2007. We had no additional property acquisitions during 2007.

Table 5 presents information regarding our net costs incurred in the purchase of proved and unproved properties and in exploration and development activities:

	December 31, 2007	December 31, 2006
Table 5 Property acquisition costs:		
Unproved	\$ —	\$ —
Proved		1,200,000
Exploration	6,918	564,196
Development		463,263
	\$ 6,918	\$ 2,227,459

Productive Wells and Acreage

Table 6 summarizes our productive and shut-in gas wells as of December 31, 2007 and 2006. Productive wells are producing wells and wells capable of production. Shut-in wells are wells that are capable of production but are not producing. Gross wells are the total number of wells in which we have an interest. Net wells are the sum of our fractional interests owned in the gross wells.

Table 6 Productive gas wells at

Edgar Filing: FELLOWS ENERGY LTD - Form 10KSB/A

	Productive gas wells at December 31, 2007		December 31, 2006	
	Gross	Net	Gross	Net
Producing gas wells	—	—	4	1.8
Shut-in gas wells	—	—	4	1.8

39

Table of Contents

Fellows Energy Ltd.
Notes to Financial Statements
December 31, 2007

Undeveloped Acreage

Table 7 summarizes the undeveloped and developed leasehold acreage, by area, that we hold as of December 31, 2007 and 2006. Undeveloped acres are acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas, regardless of whether or not the acreage contains proved reserves. Developed acres are acres that are spaced or assignable to productive wells. Gross acres are the total number of acres in which we have a working interest. Net acres are the sum of our fractional interests owned in the gross acres. The table does not include acreage that we have a contractual right to acquire or to earn through drilling projects, or any other acreage for which we have not yet received leasehold assignments. In certain leases, our ownership is not the same for all depths. The net acres in these leases are calculated using the greatest ownership interest at any depth. Generally, this greater interest represents our ownership in the primary objective formation.

Table 7 Summary of Acreage	At December 31, 2007				At December 31, 2006			
	Undeveloped acres		Developed acres		Undeveloped acres		Developed acres	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Utah	5,242	1,592	—	—	14,242	1,752	5,953	2,440
Wyoming	19,290	9,645	—	—	33,486	19,604	—	—
Colorado	3,440	3,440	—	—	3,440	3,440	—	—
Total acres	27,972	14,677	—	—	51,168	24,796	5,953	2,440

Note 9 – Property Sale

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 were as follows:

	6/30/2007
Cash & equivalents	28,801
Receivables	130,478
Property and equipment, net	1,410,616
Total Assets	1,569,895
Payables	180,194
Total Liabilities	180,194

Note 10 – Income Tax

At December 31, 2007, we have available for federal income tax purposes a net operating loss carryforward of approximately \$13,800,000, expiring at various times through 2024 that may be used to offset future taxable income. Therefore, we have provided no provision for income tax.

In addition, we have deferred tax assets of approximately \$4,700,000 at December 31, 2007. We have not recorded a benefit from our net operating loss carryforward because realization of the benefit is uncertain and, therefore, a valuation allowance of \$(4,700,000) has been provided for the deferred tax assets. The following table reports our carryforwards and the related deferred tax assets by year through December 31, 2007:

Year	NOL carryforward	Deferred tax asset
2001	\$ 10,241	\$ 3,481
2002	21,560	7,330
2003	122,915	41,791
2004	3,138,118	1,066,960
2005	1,957,800	665,700
2006	5,301,500	1,802,500
	3,260,583	1,108,598
Less: valuation allowance	—	(4,696,360)
Totals:	\$ 13,812,717	\$ —

Table of Contents

Fellows Energy Ltd.
Notes to Financial Statements
December 31, 2007

Note 11 – Commitments and contingencies

We were sued in the Sixth Judicial District Court, Garfield County, Utah on November 10, 2004, by Midway Perforating and Drilling in a complaint alleging nonpayment of charges connected with drilling the Johns Valley 10-33C2 well in Garfield County, UT. The complaint seeks damages of \$100,000 and costs of \$10,000. We filed our Answer and Counterclaim on January 19, 2005. We believe we have a strong defense and counterclaim in that the plaintiff failed to follow our instructions to use appropriate equipment for controlling deviation of the wellbore, and that such failure caused significant deviation of the wellbore, causing the well to be unusable and a breach of contract. The well bore failed to penetrate the target zone within the permitted drilling spacing unit due to horizontal deviation improperly allowed to occur by the plaintiff contractor. The suit is in its discovery stages. Although we believe we have a strong defense and counterclaim, we cannot predict the final outcome of the suit.

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 above. The settlement agreement releases all claims by either party except; \$83,358 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.

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.

Note 12 – 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 to be named Moose Mountain Energy, Inc., through a reverse merger with the new company. It is expected that either we or Moose Mountain Energy, Inc. would continue to conduct the business of Fellows and of Dolar Energy, LLC. 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. Although the set time for these transactions to be consummated expired on February 29, 2008, the Company continues to have a non-exclusive option to enter into the transactions, or any of them with respect to any one of the projects, unless and until any particular project in question is no longer available by reason of being sold to a third party.

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.

41

Table of Contents

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

On February 18, 2008, we engaged the firm of Kelly Allen & Associates, Inc (“Kelly Allen & Associates”) to serve as its independent registered public accountants for the fiscal year ending December 31, 2007. On February 15, 2008, the Company notified Mendoza Berger and Company, LLP (“Mendoza Berger and Company”) that it was terminating Mendoza Berger and Company’s services. The decision to change accountants was recommended and approved by the Company’s Audit Committee and Board of Directors. The Company decided to switch its independent registered public accounting firm because of the new firm's intimate knowledge of the oil and gas industry. The Company believes this firm's intimate knowledge of the oil and gas industry merits a transition to Kelly Allen & Associates.

During the two fiscal years ended December 31, 2006 and 2005, and through February 18, 2008, (i) there were no disagreements between the Company and Mendoza Berger and Company on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of Mendoza Berger and Company would have caused Mendoza Berger and Company to make reference to the matter in its reports on the Company’s financial statements, and (ii) except for Mendoza Berger and Company’s report on the Company's December 31, 2006 financial statements dated April 17, 2007, except for Note 2, which included an explanatory paragraph wherein they expressed substantial doubt about the Company's ability to continue as a going concern, Mendoza Berger and Company’s reports on the Company’s financial statements did not contain an adverse opinion or disclaimer of opinion, or was modified as to audit scope or accounting principles. During the two fiscal years ended December 31, 2005 and 2006 and through February 18, 2008, there were no reportable events as the term described in Item 304(a)(1)(iv) of Regulation S-B.

During the two fiscal years ended December 31, 2006 and 2005 and through February 18, 2008, the Company has not consulted with Kelly Allen & Associates regarding either:

1. The application of accounting principles to any specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company’s financial statements, and neither a written report was provided to Kelly Allen & Associates nor oral advice was provided that Kelly Allen & Associates concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or
2. Any matter that was either subject of disagreement or event, as defined in Item 304(a)(1)(iv) of Regulation S-B and the related instruction to Item 304 of Regulation S-B, or a reportable event, as that term is explained in Item 304(a)(1)(iv) of Regulation S-B.

ITEM 8A – CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"), the term "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures and concluded that the Company's disclosure controls and procedures were effective as of December 31, 2007.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

Management's Annual Report on Internal Control Over Financial Reporting

The management of Fellows Energy Ltd. is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements, and provide reasonable assurance as to the detection of fraud.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time.

With the participation of the Chief Executive Officer and Chief Financial Officer, the Company's management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework and criteria established in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2007.

This Annual Report on Form 10-KSB does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report on Form 10-KSB.

By: /s/ George S.
Young
George S. Young,
President
Chief Executive
Officer
April 14, 2008

By: /s/ Brooke E.
Horspool
Brooke E. Horspool
Chief Financial Officer
April 14, 2008

ITEM 8B – OTHER INFORMATION

None.

Table of Contents

ITEM 13. EXHIBITS.

Exhibit No.	Description
3.1	Articles of Incorporation, filed as an exhibit to the registration statement on Form SB-2 filed with the Securities and Exchange Commission (the "Commission") on August 10, 2001, and incorporated herein by reference.
3.2	Certificate of Amendment to Articles of Incorporation, filed as an exhibit to the amended annual report on Form 10-KSB/A filed with the Commission on May 2, 2005, and incorporated herein by reference.
3.3	Bylaws, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on August 10, 2001, and incorporated herein by reference.
4.1	Form of Convertible Debenture issued by Fellows Energy, Ltd., dated June 4, 2004, filed as an exhibit to the current report on Form 8-K filed with the Commission on June 17, 2004, and incorporated herein by reference.
4.2	Form of Warrant to Purchase Common Stock of Fellows Energy, Ltd., dated June 4, 2004, filed as an exhibit to the current report on Form 8-K filed with the Commission on June 17, 2004, and incorporated herein by reference.
4.3	Form of Security Agreement of Fellows Energy, Ltd., dated June 4, 2004, filed as an exhibit to the current report on Form 8-K filed with the Commission on June 17, 2004, and incorporated herein by reference.
4.4	Form of Warrant to Purchase Common Stock of Fellows Energy Ltd. dated May 18, 2005, filed as an exhibit to the quarterly report on Form 10-QSB filed with the Commission on May 23, 2005, and incorporated herein by reference.
4.5	Form of Registration Rights Agreement dated May 18, 2005, filed as an exhibit to the quarterly report on Form 10-QSB filed with the Commission on May 23, 2005, and incorporated herein by reference.
4.6	Form of Subscription Agreement dated May 18, 2005, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on August 10, 2005, and incorporated herein by reference.
4.7	Form of Securities Purchase Agreement of Fellows Energy Ltd. dated June 17, 2005, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on August 10, 2005, and incorporated herein by reference.
4.8	Form of Debenture issued by the Company, dated June 17, 2005, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on August 10, 2005, and incorporated herein by reference.
4.9	Form of Warrant to purchase Common Stock of the Company, dated June 17, 2005, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on August

10, 2005, and incorporated herein by reference.

- 4.10 Form of Registration Rights Agreement of Fellows Energy Ltd. dated June 17, 2005, filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on August 10, 2005, and incorporated herein by reference.
- 4.11 Form of Securities Purchase Agreement of Fellows Energy Ltd. dated September 21, 2005, filed as an exhibit to the current report on Form 8-K filed with the Commission on September 22, 2005, and incorporated herein by reference
- 4.12 Form of Debenture issued by the Company, dated September 21, 2005, filed as an exhibit to the current report on Form 8-K filed with the Commission on September 22, 2005, and incorporated herein by reference
- 4.13 Form of Warrant to purchase Common Stock of the Company, dated September 21, 2005, filed as an exhibit to the current report on Form 8-K filed with the Commission on September 22, 2005, and incorporated herein by reference

44

Table of Contents

- 4.14 Form of Registration Rights Agreement of Fellows Energy Ltd. dated September 21, 2005, filed as an exhibit to the current report on Form 8-K filed with the Commission on September 22, 2005, and incorporated herein by reference
- 4.15 First Amendment and Waiver Agreement, dated as of February 15, 2007, by and between Fellows Energy Ltd. and Palisades Master Fund, L.P., filed as an exhibit to the current report on Form 8-K filed with the Commission on February 21, 2007, and incorporated herein by reference
- 4.16 First Amendment and Waiver Agreement, dated as of February 15, 2007, by and between Fellows Energy Ltd. and Crescent International Ltd., filed as an exhibit to the current report on Form 8-K filed with the Commission on February 21, 2007, and incorporated herein by reference
- 4.17 Securities Purchase Agreement by and between Fellows Energy Ltd. and Palisades Master Fund, L.P., filed as an exhibit to the current report on Form 8-K filed with the Commission on February 21, 2007, and incorporated herein by reference
- 4.18 Debenture issued to Palisades Master Fund, L.P., filed as an exhibit to the current report on Form 8-K filed with the Commission on February 21, 2007, and incorporated herein by reference
- 4.19 Registration Rights Agreement by and between Fellows Energy Ltd. and Palisades Master Fund, L.P., filed as an exhibit to the current report on Form 8-K filed with the Commission on February 21, 2007, and incorporated herein by reference
- 4.20 Security Agreement by and among Fellows Energy Ltd., Palisades Master Fund, L.P. and Crescent International Ltd., filed as an exhibit to the current report on Form 8-K filed with the Commission on February 21, 2007, and incorporated herein by reference
- 10.1 Purchase Agreement of October 22, 2003 with Diamond Oil and Gas Corporation, filed as an exhibit to the proxy statement on Schedule 14A filed with the Commission on October 22, 2003, and incorporated herein by reference.
- 10.2 Stock Option Plan, filed as an exhibit to the quarterly report on Form 10-QSB filed with the Commission on May 23, 2005, and incorporated herein by reference.
- 10.3 Exploration Services Funding Agreement, dated January 26, 2004, between Fellows Energy Ltd. and Thomasson Partner Associates, Inc., filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on October 6, 2005, and incorporated herein by reference.
- 10.4 Agreement to Extend and Amend Exploration Funding Service Agreement, dated February 24, 2005, between Fellows Energy Ltd. and Thomasson Partner Associates, Inc. filed as an exhibit to the amended annual report on Form 10-KSB/A filed with the Commission on May 2, 2005, and incorporated herein by reference.
- 10.5 Purchase and Option Agreement, dated March 16, 2004, between Fellows Energy Ltd. and Quaneco, L.L.C., filed as an exhibit to the registration statement on Form SB-2 filed with

the Commission on October 14, 2005, and incorporated herein by reference.

- 10.6 Amendment to Purchase and Option Agreement, dated September 14, 2004, between Fellows Energy Ltd. and Quaneco, L.L.C., filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on October 6, 2005, and incorporated herein by reference.
- 10.7 Agreement for Purchase of Interests in the Castle Rock and Kirby CBNG Projects of March 4, 2005 with Quaneco, L.L.C., filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on October 6, 2005, and incorporated herein by reference.
- 10.8 Promissory Note of November 8, 2004 with JMG Exploration, Inc., filed as an exhibit to the quarterly report on Form 10-QSB filed with the Commission on November 15, 2004, and incorporated herein by reference.
- 10.9 General Security Agreement of November 8, 2004 with JMG Exploration, Inc., filed as an exhibit to the quarterly report on Form 10-QSB filed with the Commission on November 15, 2004, and incorporated herein by reference.

Table of Contents

- 10.10 Exploration and Development and Conveyance Agreement of November 8, 2004 with JMG Exploration, Inc., filed as an exhibit to the quarterly report on Form 10-QSB filed with the Commission on November 15, 2004, and incorporated herein by reference.
- 10.11 Letter Agreement, dated December 1, 2004, between Fellows Energy, Ltd. and Axiom Capital Management, Inc., filed as an exhibit to the amended annual report on Form 10-KSB/A filed with the Commission on May 2, 2005, and incorporated herein by reference.
- 10.12 Letter Agreement regarding Bacaroo Project, dated April 14, 2004, between Thomasson Partner Associates, Inc. and Fellows Energy Ltd., filed as an exhibit to the registration statement on Form SB-2 filed with the Commission on October 6, 2005, and incorporated herein by reference.
- 10.13 Settlement Agreement, dated as of February 15, 2007, by and between Fellows Energy Ltd. and JGB Capital, L.P., filed as an exhibit to the current report on Form 8-K filed with the Commission on February 21, 2007, and incorporated herein by reference
- 16.1 Letter on change in Certifying Accountant on Form 8-K filed with the Commission on February 21, 2007, and incorporated herein by reference
- 23.1 Letter of Consent from former Certifying Accountant dated April 14, 2008
- 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 Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FELLOWS ENERGY LTD.

Date: March 5, 2009

By: /s/ GEORGE S. YOUNG
George S. Young
Chief Executive Officer, President and Chairman of the
Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Position	Date
By: /s/ GEORGE S. YOUNG George S. Young	Chief Executive Officer, President and Chairman of the Board	March 5, 2009
By: /s/ BROOKE E. HORSPOOL Brooke E. Horspool	Chief Financial Officer	March 5, 2009