FELLOWS ENERGY LTD
Form 10QSB
November 19, 2007

United States
Securities And Exchange Commission

Washington, D.C. 20549

Form 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

Commission File Number: 000-33321

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

Nevada	**33-0967648**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1369 Forest Park Cir. Suite #202
Lafayette, CO 80026

(Address of Principal Executive Offices)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

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

¨ Yes x No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of November 19, 2007 there were 100,000,000 shares of the issuer's $.001 par value common stock issued and outstanding.

Transitional Small Business Disclosure Format: ¨ Yes x No

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FELLOWS ENERGY LTD.

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

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Part I: Financial Information

Item 1. Financial Statements

Fellows Energy Ltd.
Balance Sheets

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and Cash Equivalents	$ 1,732	$ 179,926
Interest Receivable	5,823	2,568
Accounts Receivable	202,220	80,258
Note Receivable	233,634	233,634
Prepaids	—	—
Total current assets	443,409	496,386
Proved and unproved oil & gas property	5,002,034	7,468,809
Equipment, net of $80,727 and $118,651 accumulated depreciation respectively	294,830	1,509,932
Deposits	28,000	
Restricted cash	160,000	160,000
Deferred financing costs	152,505	228,758
Total assets	$ 6,080,778	$ 9,863,885
Liabilities And Stockholders' Equity		
Accounts payable	$ 480,768	$ 359,662
Joint venture partner interest payable	—	99,167
Taxes payable	—	9,433
Interest payable current portion	273,125	205,700
Notes payable current portion	511,131	1,583,111
Convertible debenture current portion	1,901,415	1,608,433
Total current liabilities	3,166,439	3,865,506
Interest payable – net of current portion	175,292	154,819
Notes payable – related party	2,649,343	1,733,000
Notes payable – net of current portion	—	428,000
Convertible debenture – net of current portion	—	1,385,505
Stockholders' equity		
Preferred stock, $.001 par value; 25,000,000 shares authorized; none outstanding	—	—
Common stock, $.001 par value; 100,000,000 shares authorized; 100,000,000 and 73,447,619 shares issued and outstanding	100,000	73,447
Additional paid-in capital	22,200,000	19,963,497
Stock issuance obligation	154,830	61,055
Stock pledged as collateral	(1,665,000)	(1,665,000

Accumulated deficit	(20,700,126)	(16,135,944
Total stockholders' equity	89,704	2,297,055
Total liabilities and stockholders' equity	$ 6,080,778	$ 9,863,885

See accompanying notes to unaudited financial statements

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Fellows Energy Ltd.
Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue	$ —	$ 110,643	$ —	$ 454,484
Operating expense				
Exploration and production	3,122	125,872	3,122	690,068
General and administrative	161,074	1,065,589	1,941,278	3,060,034
Relinquishment of Property	—	—	2,075,368	—
Operating (loss)	(164,196)	(1,080,818)	(4,019,768)	(3,295,618)
Other income (expense)				
Interest expense	(957,977)	(31,439)	(1,735,355)	(108,196)
Gain on sale of project	1,555,318		1,555,318	
Gain on extinguishment of debt				
Project revenue applied as credit to purchase	—	—	—	198,361
Note receivable default penalty	—	—	—	80,000
Re-sale of pipe	—	—	—	34,644
Insurance rebates and project purchase credit	—	—	—	19,993
Miscellaneous income (expense)	110,966	47,072	127,396	47,437
Total other income (expense)	708,307	15,633	(52,641)	272,239
Income (loss) from continuing operations before income tax	544,112	(1,065,185)	(4,072,408)	(3,023,379)
Income tax expense	—	—	—	—
Deferred tax benefit	—	—	—	—
Income (loss) from continuing operations	$ 544,112	$ (1,065,185)	$ (4,072,408)	$ (3,023,379)
Revenue from discontinued operations	—	—	108,344	—
Expenses from discontinued operations	—	—	111,159	—
Income (loss) from discontinued operations	544,112	—	(2,815)	—
Other comprehensive income (loss)				
Unrealized holding gains on marketable securities	—	—	—	4,483
Comprehensive Income (loss)	$ 544,112	$ (1,065,185)	$ (4,075,223)	$ (3,018,896)
Basic and diluted earnings (loss) per share	$ 0.01	$ (0.02)	$ (0.07)	$ (0.05)
Basic and diluted weighted average shares outstanding	100,000,000	65,295,510	96,290,216	60,413,244

See accompanying notes to unaudited financial statements

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Fellows Energy Ltd.
Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2007	**2006**
Cash flow from operating activities:		
Net income (loss)	$ (4,075,223)	$ (3,023,379)
Adjustments to reconcile net income to net cash used in operating activities:		
Loss on sale of marketable securities	-	50,530
Debt issue costs and discount amortization	435,116	1,305,347
Depreciation	(37,923)	70,750
Expenses paid with stock issuance	1,581,710	—
Expenses paid with stock issuance obligation	93,774	—
Changes in operating assets and liabilities:		
Receivables	(187,994)	(272,387)
Prepaid expense	(8,065)	-
Deferred financing costs	445,672	228,758
Accounts payable	46,271	137,666
Interest payable	(17,344)	185,700
Joint venture partner interest payable	(0.00)	236,786
Net cash provided by (used in) operating activities	(1,724,007)	(1,080,229)
Cash flow from investing activities:		
Proceeds from sale of marketable securities	-	355,026
Deposits	(28,000)	579,000
Unproved oil and gas property additions	(8,675)	(724,315)
Unproved oil and gas property relinquishment	2,075,368	—
Proved oil and gas property sale	1,622,708	
Restricted Cash	-	(25,000)
Purchase of equipment	30,399	(1,182,911)
Net cash provided by (used in) investing activities	3,691,800	(998,200)
Cash flow from financing activities:		
Proceeds from issuance of convertible debenture	714,500	—
Payments on convertible debenture	(1,897,058)	(815,833)
Borrowings on note payable	548,556	3,525,896
Payments on notes payable	(1,478,223)	(318,417)
Net cash provided by (used in) financing activities:	(2,112,225)	2,391,646
Net increase (decrease) in cash and equivalents	(144,432)	313,217
Cash and equivalents at beginning of period	179,926	347,558
Cash and equivalents at end of period	$ 35,494	$ 660,775
Supplemental Disclosure of Cash Flow and Non-cash Investing and Financing Activity:		
Income tax paid	$ —	$ —
Interest paid	$ 72,533	$ —

Non cash:		
Convertible debenture paid with stock issuance	$ 31,250	$ 2,467,283
Legal and advisory services in exchange for stock issuance obligation	$ 61,055	$ 107,504
Fees paid with stock	$ 1,581,710	$ 85,000

See accompanying notes to unaudited financial statements

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

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Note 1—Basis of Presentation and Nature of Operations

We have prepared the accompanying unaudited condensed financial statements in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB and item 310(b) of Regulation S-B. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. You should read these financial statements with our Annual Report on Form 10-KSB for the year ended December 31, 2006, as well as the 10-QSB for the quarters ended September 30, 2007, June 30, 2007, and March 31, 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.

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

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those statements.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income reflects changes in equity that result from transactions and economic events from non-operating sources. For the Company, such items consisted of unrealized holding gains and losses on market securities for the current period.

Earnings (Loss) per share

We compute basic and diluted earnings (loss) per share as net income or loss divided by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per share is similar to basic earnings per share but also presents the dilutive effect on a per share basis of securities convertible into common shares (e.g. stock options, warrants and other convertible securities) as if they had been converted at the beginning of the periods presented. In periods in which we incur losses we exclude potential shares from convertible securities from the computation of diluted loss per share as their effect is antidilutive in those periods.

Stock Options

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

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)"), which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS 123(R) is effective for public companies for the first fiscal year beginning after June 15, 2005, supersedes Accounting Principles Board Opinion No. 25 ("APB 25"), Accounting for Stock Issued to Employees, and amends SFAS 95, Statement of Cash Flows. SFAS 123(R) eliminates the option to use APB 25's intrinsic value method of accounting and requires recording expense for stock compensation based on a fair value based method.

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On July 1, 2005, the Company adopted the "modified prospective method" which requires the Company to recognize compensation costs, for all share-based payments granted, modified or settled, in financial statements issued subsequent to July 1, 2005, as well as for any awards that were granted prior to the adoption date for which the required service has not yet been performed. The adoption of SFAS 123(R) did not have a material effect on the Company's financial condition or results of operations because subsequent to July 1, 2005, the Company did not enter into any share-based transactions.

Prior to July 1, 2005, the Company accounted for its stock-based compensation using APB 25 and related interpretations. Under APB 25, compensation expense was recognized for stock options with an exercise price that was less than the market price on the grant date of the option. For stock options with exercise prices at or above the market value of the stock on the grant date, the Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123") for the stock options granted to the employees and directors of the Company. Accordingly, no compensation cost was recognized for these options prior to June 30, 2005.

Compensation expense has been recognized in the accompanying financial statements for stock options that were issued to our outside consultants. Had compensation expense for the options granted to our employees and directors been determined based on the fair value at the grant date for options, consistent with the provisions of SFAS 123, the Company's net (loss) income and net (loss) income per share for the six months ended September 30, 2007 and 2006 would have been the pro forma amounts indicated below.

We estimate the fair value of the options we grant at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the quarter ended September 30, 2007: a risk-free interest rate of 4.37%; no expected dividend; a volatility factor of 97.5%; and a maturity date of ten years.

For purposes of pro forma disclosures, we amortize to expense the estimated fair value of the options over the options' vesting period. Our pro forma information for the third quarter of 2007 is as follows (in thousands, except per share amounts).

	Nine Months Ended September 30, 2007	Six Months Ended September 30, 2006
Net loss as reported	$ (4,072,408)	$ (3,023,379)
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards	(20,154)	(13,955)
Pro forma net loss	$ (4,092,562)	$ (3,037,334)
Basic and diluted loss per share—as reported	$ (0.00)	$ 0.00
Pro forma basic and diluted loss per share	$ (0.00)	$ nil-

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions, are fully transferable, and are not subject to trading restrictions or blackout periods. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, it is our

opinion that the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options.

Reclassifications

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

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Note 2 – Asset Retirement Obligation

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

The Company depletes the amount added to proved oil and gas property costs. The future cash outflows for oil and gas properties associated with settling the asset retirement obligations that have been accrued in the accompanying balance sheets are excluded from the ceiling test calculations. The Company's asset retirement obligation consists of costs related to the plugging of wells and removal of facilities and equipment on its oil and gas properties. The asset retirement liability is allocated to operating expenses using a systematic and rational method. At September 30, 2007, the asset retirement obligation and accretion expense were not considered to be material.

Note 3—Going Concern

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

Note 4—Deposits

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

Note 5—Notes Receivable

In August and September 2005 as part of our earn-in arrangement, we agreed to advance Mountain Oil and Gas a total of $66,000 for purposes of working capital in exchange for oilfield and rig services. Originally this balance was classified as a deposit, and has since been reclassified as a note receivable. As indicated in the agreement, in the event that sufficient services were not performed, the amount was to be treated as a loan, and would take on a 12% interest payable beginning February of 2006. The amount is secured with field equipment including a pumping unit, engine, treater, and rods. As of October 2007, we have reached a settlement agreement with regards to the above note, which is further described in Note 11, Subsequent Events.

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 either in cash or labor towards the workover of the well bore. In the event that we were not paid by December 30, 2005, we were entitled to $160,000 of the net revenues from the 1-16A1E well beginning January 1, 2006. Repayment was secured by a pumping unit located on the Dye-Hall well for the value of the working capital and well bonding. As of September 30, 2007, we have collected $20,000 on the note, and reached a settlement agreement with regards to the above note, as of October 2007, which is further described in Note 11, Subsequent Events.

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Note 6—Notes Payable

At September 30, 2007, we owed $2,649,000 on an unsecured 8% demand note payable to an entity controlled by our CEO.

In 2006, we obtained $1.25 million in industry partner financing to carry the Creston project forward, in exchange for 1.6 million shares of restricted common stock and warrants to purchase 1.8 million shares at $0.70 per share. 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. As of September 2007, we owed $511,000 on the note.

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

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

Note 7—Related Party Transactions

At September 30, 2007 we owed $2,649,000 on an unsecured, 8% demand note payable to an entity controlled by our CEO.

In 2006, we obtained $1.25 million in industry partner financing to carry the Creston project forward, in exchange for 1.6 million shares of restricted common stock and warrants to purchase 1.8 million shares at $0.70 per share. 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. As of September 2007, we owed $511,000 on the note.

Note 8 —Common Stock

We issued 11,189,947 shares of common stock in the first quarter of 2007, for the debt service of our convertible debentures. The first quarter redemption share payments amounted to 1,075,343 shares, 118,057 shares, and 9,996,547 shares.

In addition to the redemption issuances above, we issued 5,454,546 at $0.1375, 1,449,825 at $0.09, 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.

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

Note 9 —Convertible Debentures 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.

Background

June 2005 Financing

On June 17, 2005, we closed a financing pursuant to a securities purchase agreement with three accredited investors, Palisades Master Fund, L.P. (“Palisades”), Crescent International Ltd. (“Crescent”) and JGB Capital L.P. (“JGB”) for the issuance of $5,501,200 in face amount of debentures maturing September 17, 2007 (the “June Debentures”). The June Debentures were unsecured and we were obligated to pay 1/24th of the face amount of the debenture on the first of every month, starting October 1, 2005, which payment could be made in cash or in shares of our common stock. 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.

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

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

September 2005 Financing

On September 21, 2005, we closed a financing pursuant to a securities purchase agreement with two accredited investors, Palisades and Crescent for the issuance of $3,108,000 in face amount of debentures maturing December 20, 2007 (the "September Debentures" 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, which payment could be made in cash or in shares of our common stock. 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 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").

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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 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.

We agreed to pay Palisades a forbearance fee of $150,000 a month, for six months, which fee was paid in shares of common stock at an issuance price of $0.1375, for a total issuance of 5,454,546 shares of restricted common stock. In addition, we agreed to issue Palisades 1,449,825 shares of common stock as a commitment fee for the restructuring of the Old Debentures.

Repayment

In connection with the sale of our Carbon County prospect, we paid off the outstanding June Debenture of $333,333.33 held by Crescent, which was purchased from JGB. In addition, we paid Palisades $516,305.06 of principal on the September Debenture, and paid Crescent $84,375 of principal on the June Debenture, leaving a balance of $196,875 on the Crescent June Debenture. During the quarter, we negociated to pay the balance at a fifty percent discount in exchange for the extinguishment of the remainder of the Crescent June Debenture, and recorded a $98,000 gain on the extinguishment. In addition, we paid off the entire $714,500 amount of the new debenture in full. However, in view of the fact that shareholder approval was not obtained for an increase in authorized shares, we have not been able to pay the balance due to Palisades on the debentures, and have attempted to negociate another arrangement to make payment on the old debentures. The obligations are now categorized as current liabilities, and the balance to the Palisades June Debenture is past due.

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

New Financing Payment and Retirement

In connection with the sale of our Carbon County prospect, we paid off the New Debenture of $714,500 held by Palisades. As a result of our inability to obtain an increase in the number of shares of authorized common stock, we are negotiating an amendment to our prior deal.

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Note 10—Proved and Unproved Oil and Gas Property

Carbon County Project, Utah

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

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 ("TBD") formerly MBA Resource Corp. of Canada. TBD paid $1.5 million and arranged third party financing of $750,000 toward the $3 million purchase price in exchange for a 50% interest in the project. We previously paid a deposit toward the purchase price and received production credits since October 1, 2005. We thus acquired a 50% interest in the project with only an additional payment of $241,000. Together with TBD we formed Gordon Creek, LLC, a joint operating company incorporated in the state of Utah to carry out gas production and drilling operations as well as gas gathering activities for both project gas and adjacent third party production.

On August 6, 2007, we entered into a purchase and sale agreement for the sale of our interests in the Carbon County project to our joint venture partner Thunderbird Energy, Inc. for a total purchase price of $3 million. Thunderbird paid $1.65 million in cash directly to our debenture holders, approximately $12,800 to Thames River, LLC for services rendered, and assumed $1.1 million in liabilities from the Company. Thunderbird will also pay approximately $237,000 to the Company.

Uintah Basin, Utah

On October 25, 2005, we announced that we had entered into a participation agreement with Mountain Oil and Gas, Inc., Creston Resources Ltd, and Homeland Gas and Oil Ltd. (collectively "Creston"), and completed arrangements with private investors, whereby we were to supply operating expertise and program supervision to earn working interests in up to 45 producing oil wells in the Uintah Basin of Utah. We have since discontinued working with Creston in this program due to its inability to administer working arrangements with drilling rigs and refineries, and have negociated a settlement with Creston regarding work done to date. We expect to renew our efforts to perform work in operations in the Uinta Basin in our new arrangements with Dolar Energy, LLC.

Weston County, Wyoming

In November 2004 we executed a joint venture agreement with JMG Exploration, to drill our Weston County and Gordon Creek projects. Under the agreement, JMG Exploration will receive a 50% interest in exchange for spending $2,000,000 in exploration and drilling activity 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 have 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 has been 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 has been terminated. In connection with this transaction, we recorded a gain from extinguishment of debt of $383,531.

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

During the second quarter of 2007, we have agreed for the expenditure of funds by a Thunderbird Energy Corp for the drilling and completion of three wells to the Dakota formation. We estimate that the cost of such drilling will be approximately $3.5 million. Upon the completion of such expenditures within the next 24 months, Thunderbird will receive an additional 25% working interest in the Weston County project. We will reserve the option to commence drilling under the previous joint venture structure if Thunderbird does not commence drilling by May 31, 2008.

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Gordon Creek, Utah

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

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

Carter Creek, Wyoming

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

Overthrust, Utah and Wyoming

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

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 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.

Bacaroo, Colorado

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

Leasing and seismic evaluation activities continue. One entire target area is now under lease, and two additional areas are now undergoing leasing. We will perform additional geologic evaluation and permitting work in preparation for drilling in 2008.

Johns Valley Project, Utah

In 2004, we acquired an agreement with Johns Valley Limited Partnership whereby we have the option to earn a 70% working interest in 25,201 acres of oil and gas leases from the Utah School and Institutional Trust Lands Administration. Due to permitting delays and other operating parameters in the field, we negotiated to restructure the

potential option and the timing and amounts of our work commitments as provided under the option assignment agreement. During the fourth quarter of 2006, due to capital constraints, we determined not to pursue the option on this project and relinquished our rights related thereto.

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Note 11: - Subsequent Events.

On October 30th, 2007, we entered into an agreement to provide for (1) the earn-in on the Divide, Pinedale and Wilkens Ridge projects; (2) the hiring of Mark S. Dolar and Ken Allen into the management, and their appointment as directors; and (3) to provide for the potential growth of the Company through a joint venture or other financing arrangement, or a potential business combination whereby we would merge with a new company 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 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.

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.

On October 15, 2007, we entered into a settlement agreement with Creston Resources Ltd (successor in interest to Mountain Oil and Gas, Inc.) to settle the notes receivable owed to us, as mentioned in Note 5 above. The settlement agreement releases all claims by either party except; $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.

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

Forward-Looking Statements

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

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

Overview

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

Projects acquired from Thomasson Partner Associates 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.

On August 6, 2007, we entered into a purchase and sale agreement for the sale of our interests in the Carbon County project to our joint venture partner Thunderbird Energy, Inc. for a total purchase price of $3 million. Thunderbird paid $1.65 million in cash directly to our debenture holders, approximately $12,800 to Thames River, LLC for services rendered, and assumed $1.1 million in liabilities from us. Thunderbird will also pay approximately $237,000 to the us in cash.

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 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.

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Plan of Operations

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

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

We have not entered into commodity swap arrangements or hedging transactions. Although we have no current plans to do so, we may enter into commodity swap and/or hedging transactions in the future in conjunction with oil and gas production. We have no off-balance sheet arrangements.
Our future financial results continue to depend primarily on (1) our ability to discover or purchase commercial quantities of oil and gas; (2) the market price for oil and gas; (3) our ability to continue to source and screen potential projects and finance them through joint ventures and potential business combinations; and (4) our ability to fully implement our exploration and development program with respect to these and other matters. We cannot assure that we will be successful in any of these activities or that the prices of oil and gas prevailing at the time of production will be at a level allowing for profitable production.

Results of Operations

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

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

Operating expense. For the three months ended September 30, 2007, our operating expense was approximately $164,000, compared to $1,081,000 for the three months ended September 30, 2006. The expenses came from oil and gas exploration and production, salaries, business advisory services, legal and professional fees, travel, investor relations expense, and debt service. Primarily the difference between the two periods relates to lower exploration and production costs, legal, business advisory, and stock issuance costs associated with the convertible debentures for the three months ended September 30, 2006. Expenses for the three months ended September 30, 2007 consisted of $121,000 in legal, consulting, and audit services, $9,000 in payroll, $17,000 in insurance costs, and $14,000 in other costs including rent, bank fees, travel, and telephone expenses.

Interest expense. We incurred interest expense of $958,000 for the three months ended September 30, 2007, compared to $31,000 for the three months ended September 30, 2006. Interest expense for the quarter primarily consisted of amortized convertible debenture discount and deferred debt issue costs in the amounts of $446,000 and $435,000 respectively.

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

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

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Operating expense. For the nine months ended September 30, 2007, our operating expense was approximately $4,020,000, compared to $3,296,000 for the nine months ended September 30, 2006. The expenses came from oil and gas exploration and production, salaries, business advisory services, legal and professional fees, travel, investor relations expense, and debt service. Primarily the difference between the two periods relates to higher exploration and production costs, legal, business advisory, and stock issuance costs associated with the convertible debentures for the period ended September 30, 2006, as well as the relinquishment of property options during the second quarter of 2007. In addition to the $2,075,000 in property option relinquishment, expenses for nine months ending September 30, 2007 consisted of $876,000 in legal, consultant, and audit services, $156,000 in depreciation, depletion, and amortization, $344,000 in production costs, and $303,000 in payroll, $106,000 in payroll taxes, $124,000 in insurance, $28,000 in rent, and $8,000 in other utilities and office expenses.

Interest expense. We incurred interest expense of $1,735,000 for the nine months ended September 30, 2007, compared to $108,000 for the nine months ended September 30, 2006. This difference primarily relates to convertible debenture interest incurred. Interest expense for the year primarily consisted of amortized convertible debenture discount and deferred debt issue costs.

Liquidity and Capital Resources

For the quarter ended September 30, 2007, we had net income of $446,000. For the quarter ended September 30, 2006, we incurred a net loss of $1,065,000. At September 30, 2007, we had $1,700 of cash and cash equivalents, total current assets of $443,000, and current liabilities of $3,265,000 for a working capital deficit of $2,822,000.

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

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

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 $5,501,199.95 in face amount of debentures maturing September 17, 2007 (the “June Debentures”). The June Debentures were unsecured and we were obligated to pay 1/24th of the face amount of the debenture on the first of every month, starting October 1, 2005, which payment could be made in cash or in shares of our common stock. 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.

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

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

September 2005 Financing

On September 21, 2005, we closed a financing pursuant to a securities purchase agreement with two accredited investors, Palisades and Crescent for the issuance of $3,108,000 in face amount of debentures maturing December 20, 2007 (the "September Debentures" 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, which payment could be made in cash or in shares of our common stock. 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, 2007, 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;
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.

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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 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.

We agreed to pay Palisades a forbearance fee of $150,000 a month, for six months, which fee was paid in shares of common stock at an issuance price of $0.1375, for a total issuance of 5,454,546 shares of restricted common stock. In addition, we agreed to issue Palisades 1,449,825 shares of common stock as 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.

Repayment

In connection with the sale of our Carbon County prospect, we paid off the outstanding June Debenture of $333,333.33 held by Crescent, which was purchased from JGB. In addition, we paid Palisades $516,305.06 of principal on the September Debenture, and paid Crescent $84,375 of principal on the June Debenture, leaving a balance of $196,875 on the Crescent June Debenture. During the quarter, we negociated to pay the balance at a fifty percent discount in exchange for the extinguishment of the remainder of the Crescent June Debenture, and recorded a $98,000 gain on the extinguishment. In addition, we paid off the entire $714,500 amount of the new debenture in full. However, in view of the fact that shareholder approval was not obtained for an increase in authorized shares, we have not been able to pay the balance due to Palisades on the debentures, and have attempted to negociate another arrangement to make payment on the old debentures. The obligations are now categorized as current liabilities, and the balance to the Palisades June Debenture is past due.

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

New Financing Payment and Retirement

In connection with the sale of our Carbon County prospect, we paid off the New Debenture of $714,500 held by Palisades. As a result of our inability to obtain an increase in the number of shares of authorized common stock, we are negotiating an amendment to our prior deal.

Cash Flow

For the nine months ended September 30, 2007, we used $1,724,000 in our operating activities. We obtained $3,692,000 in investing activity for our property and interest disposition, and used $2,014,000 in financing activity from making payments on capital obtained through financings. We decreased our December 31, 2006 cash balance of $180,000 to $1,700 at September 30, 2007.

Critical Accounting Policies and Estimates

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, accrued expense, financing operations, contingencies and litigation. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. Our estimates and judgments form the basis for determining the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. These carrying values are some of the most significant accounting estimates inherent in the preparation of our financial statements. These accounting policies are described in relevant sections in this discussion and in the notes to the financial statements included in our December 31, 2006 Form 10-KSB Annual Report.

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Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

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

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

(b) Changes in internal control over financial reporting.

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

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

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Part II: Other Information

Item 1. Legal Proceedings

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

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

Item 5. Other Information

None.

Item 6. Exhibits

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

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Signatures

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

FELLOWS ENERGY LTD.

Date: November 19, 2007

By: */s/ GEORGE S. YOUNG*
George S. Young
Chief Executive Officer (Principal Executive Officer)

Date: November 19, 2007

By: */s/ BROOKE E. HORSPOOL*
Brooke E. Horspool
Chief Financial Officer (Principal Accounting Officer and Principal Financial Officer)