FIDELIS ENERGY INC
Form 10QSB
May 15, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006.

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ------------ TO ------------.

COMMISSION FILE NUMBER 000-33499

FIDELIS ENERGY, INC.
(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

NEVADA	16-1599721
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(IRS EMPLOYER IDENTIFICATION NO.)

9595 WILSHIRE BOULEVARD, SUITE 900, BEVERLY HILLS, CALIFORNIA 90212
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(310) 300-4062
ISSUER'S TELEPHONE NUMBER

APPLICABLE ONLY TO CORPORATE ISSUERS

STATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF COMMON EQUITY, AS OF THE LATEST PRACTICAL DATE: MARCH 31, 2006 148,584,354

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE). YES ; NO X

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED BY RULE 12B-2 OF THE EXCHANGE ACT). YES [ ] NO [X]

PART I

ITEM 1. FINANCIAL STATEMENTS

FIDELIS ENERGY, INC.
BALANCE SHEETS

	(Unaudited) March 31, 2006
ASSETS	
Current Assets	
Cash	$ 154,257
Accounts receivable	288,000
Prepaid expense	15,000
Total Current Assets	457,257
Oil & Gas Properties, Using Successful Efforts Method	
Oil & Gas Leases	815,179
Oil & Gas Exploration Costs	2,373,170
Less: Depletion	(158,443)
Total Oil & Gas Properties	3,029,906
Other Assets	
Deposits	5,173
Property and Equipment - net	48,030
Total Property & Equipment, Net of Depreciation	53,203
TOTAL ASSETS	$ 3,540,366

FIDELIS ENERGY, INC.
BALANCE SHEETS

		(Unaudited) March 31, 2006
LIABILITIES		
Current Liabilities		
Accounts Payable	$	53,709
Accrued Liabilities		8,541
Notes Payable		375,158
Related Party Note		115,817
Shareholder Loan		3,176
Total Current Liabilities		556,401
Non-Current Liabilities		
Asset Retirement Obligation		285,000
Credit Line Note Payable		1,292,197
Convertible Debenture		2,538,592
Beneficial Conversion Liability		2,503,507
Total Non-Current Liabilities		6,619,296
TOTAL LIABILITIES		7,175,697
Stockholders' Equity:		
Common Stock, Par value $.001 Authorized 100,000,000 shares, Issued 148,584,354 shares at March 31, 2006 and December 31, 2005		148,584
Treasury Stock, 54,000,000 shares at March 31, 2006 and December 31, 2005		(10,800,000)
Paid-In Capital		11,106,584
Retained Deficit		(4,090,499)
TOTAL STOCKHOLDERS' EQUITY		(3,635,331)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	3,540,366

The accompanying notes are an integral part of these financial statements.

FIDELIS ENERGY, INC.
STATEMENTS OF OPERATIONS

	(Unaudited For the Three Mont March 31, 2006	
Production Income	$ 498,883	$
Cost of Operations	115,815	
Gross Profit	383,068	
Expenses:		
Corporate finance fees	250,000	
Consulting	237,887	
General and administrative	98,726	
Selling and marketing	41,191	
Total Operating Expenses	627,804	
Other Expense		
Interest	(55,393)	
Net Income (Loss)	$ (300,129)	$
Basic & Diluted Loss	$ -	$
Weighted Average Shares	148,584,354	

The accompanying notes are an integral part of these financial statements.

FIDELIS ENERGY, INC.
STATEMENTS OF CASH FLOWS

	(Una For the Thre March 2004
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Loss	$ (300,129
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:	
Depletion	34,306
Depreciation and Amortization	3,894
Change in Operating Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	416,531
(Increase) Decrease in Prepaids	(15,000
Increase (Decrease) in Accounts Payable	31,954
Increase (Decrease) in Interest on Notes Payable	59,094
Increase (Decrease) in Accrued Expenses	(127,523
Net Cash Used in operating activities	103,127
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of Office Equipment	-
Payment for Leasehold Improvements	-
Purchase of Oil & Gas Leases	-
Oil & Gas Exploration Costs	(826,496
Net cash provided by investing activities	(826,496
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from Convertible Debenture	1,250,000
Payment of Notes Payable	(605,132
Net Cash Provided by Financing Activities	644,868

FIDELIS ENERGY, INC.
STATEMENTS OF CASH FLOWS
(continued)

	(Una For the Thre Marc 2006
Net (Decrease) Increase in Cash and Cash Equivalents	$ (78,501
Cash and Cash Equivalents at Beginning of Period	232,758
Cash and Cash Equivalents at End of Period	$ 154,257
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid during the year for:	
Interest	$ -
Franchise and income taxes	$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: NONE	

The accompanying notes are an integral part of these financial statements.

1. Organization and Summary of Significant Accounting Policies

This summary of accounting policies for Fidelis Energy is presented to assist in understanding the Company's financial statements. The accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

The unaudited financial statements as of March 31, 2006, reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to fairly state the financial position and results of operations for the three month period. Operating results for interim periods are not necessarily indicative of the results, which can be expected for full years.

Nature of Operations and Going Concern

During the year the Company continued its production of oil and gas extraction on several sights. The accompanying financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume that the Company will continue in operation for at least one year and will be able to realize its assets and discharge its liabilities in the normal course of operations.

As of March 31, 2006 the Company's cash flow from operations did not exceed its general and administrative and other operational expenses. This was primarily attributed to one-time corporate finance fees associated with the closing of the second half of a convertible debenture financing of $1,250,000 and the lower gas prices received for delivered product in the first quarter of 2006. However, the Company successfully drilled a third gas well in the first quarter of 2006 and expects to receive cash flows from this new well in the second quarter. The Company is actively looking at competitive finance sources that could assist in accelerating the Company's exploration program and oil and gas operations.

The Company's future capital requirements will depend on numerous factors including, but not limited to, acquiring interests in various exploration and production opportunities and the continued success of its current oil and gas operations.

These financial statements do not reflect adjustments that would be necessary if the Company were unable to continue as a "going concern". While management believes that the actions already taken or planned, will mitigate the adverse conditions and events which raise doubt about the validity of the "going concern" assumption used in preparing these financial statements, there can be no assurance that these actions will be successful.

Nature of Business

The Company was incorporated under the laws of the State of Nevada on November 6, 2000. Since November 6, 2000, the Company was in the development stage, and had not commenced planned principal operations. On June 10, 2003, the Company changed its name to Eagle Star Energy, Inc. to reflect the current direction of the company. On February 24, 2004, the Company changed its name to Fidelis Energy, Inc. The Company operated as a development stage company until the first quarter of 2004, when it began exploration for oil and gas. During the second quarter of 2004, the Company acquired a proven well field and was setting up the extraction process with some revenue generated as at December 31, 2004.

The Company is presently in the production stage of the oil and gas industry. The Company's primary objective is to identify, acquire and develop working interest percentages in smaller, underdeveloped oil and gas projects in California and Canada that do not meet the requirements of the larger producers and developers. The Company intends to acquire smaller, underdeveloped producers generally under control of small family-owned operators who are interested in selling out.

2. Significant Accounting Policies

(a) Accounting Estimates

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

(b) Cash Equivalents

For purposes of the statement of cash flows cash equivalents usually consist of highly liquid investments which are readily convertible into cash with maturity of three months or less when purchased.

(c) Reclassification

Certain reclassifications have been made in the 2005 financial statements to conform with the 2006 presentation.

(d) Concentration of Credit Risk

The Company has no significant off-balance-sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign hedging arrangements. The Company maintains the majority of its cash balances with one financial institution, in the form of demand deposits.

(e) Fixed Assets

Property and Equipment are stated at cost. Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Rate
Computer hardware	3 - 5 years
Office Equipment	3 - 5 years
Office furniture and equipment	5 - 7 years
Leasehold improvements	Term of Lease

Maintenance and repairs are charged to operations; betterments are capitalized. The cost of property sold or otherwise disposed of and the accumulated depreciation thereon is eliminated from the property and related accumulated depreciation accounts, and any resulting gain or loss is credited or charged to income.

Depreciation expense for the three months ended March 31, 2006 and 2005 was $3,894 and $7,139, respectively.

2. Significant Accounting Policies (continued)

(f) Oil and Gas Activities - Successful Efforts Method of Accounting

On April 4, 2005, the FASB adopted FASB Staff Position FSP FAS 19-1 that amends Statement of Financial Accounting Standards No. 19 (FAS 19), Financial Accounting and Reporting by Oil and Gas Producing Companies, to permit the continued capitalization of exploratory well costs beyond one year if (a) the well found a sufficient quantity of reserves to justify its completion as a producing well and (b) the entity is making sufficient progress assessing the reserves and the economic and operating viability of the project

The Company accounts for its crude oil exploration and natural gas development activities utilizing the successful efforts method of accounting. Under this method, costs of productive exploratory wells, development dry holes and productive wells and undeveloped leases are capitalized. Oil and gas lease acquisition costs are also capitalized. Exploration costs, including personnel costs, certain geological and geophysical expenses and delay rentals for oil and gas leases, are charged to expense as incurred. Exploratory drilling costs are initially capitalized, but charged to expense if and when the well is determined not to have found reserves in commercial quantities. The sale of a partial interest in a proved property is accounted for as a cost recovery and no gain or loss is recognized as long as this treatment does not significantly affect the unit-of-production amortization rate. A gain or loss is recognized for all other sales of producing properties.

The application of the successful efforts method of accounting requires managerial judgment to determine that proper classification of wells designated as developmental or exploratory which will ultimately determine the proper accounting treatment of the costs incurred. The results from a drilling operation can take considerable time to analyze and the determination that commercial reserves have been discovered requires both judgment and industry experience. Wells may be completed that are assumed to be productive and actually deliver oil and gas in quantities insufficient to be economic, which may result in the abandonment of the wells at a later date. Wells are drilled that have targeted geologic structures that are both developmental and exploratory in nature and an allocation of costs is required to properly account for the results. Delineation seismic incurred to select development locations within an oil and gas field is typically considered a development cost and capitalized, but often these seismic programs extend beyond the reserve area considered proved and management must estimate the portion of the seismic costs to expense. The evaluation of oil and gas leasehold acquisition costs requires managerial judgment to estimate the fair value of these costs with reference to drilling activity in a given area. Drilling activities in an area by other companies may also effectively condemn leasehold positions.

The successful efforts method of accounting can have a significant impact on the operational results reported when the Company is entering a new exploratory area in hopes of finding an oil and gas field that will be the focus of future development drilling activity. The initial exploratory wells may be unsuccessful and will be expensed. Seismic costs can be substantial which will result in additional exploration expenses when incurred.

2. Significant Accounting Policies (continued)

Reserve Estimates

Estimates of oil and gas reserves, by necessity, are projections based on geologic and engineering data and there are uncertainties inherent in the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is a subjective process of estimating underground accumulations of oil and gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretations and judgment. Estimates of economically recoverable oil and gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and gas prices, future operating costs, severance taxes, development costs and workover gas costs, all of which may in fact vary considerably from actual results. The future drilling costs associated with reserves assigned to proved undeveloped locations may ultimately increase to the extent that these reserves may be later determined to be uneconomic. For these reasons, estimates of the economically recoverable quantities of oil and gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of the future net cash flows expected therefrom may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of our oil and gas properties and/or the rate of depletion of the oil and gas properties. Actual production, revenues and expenditures with respect to our reserves will likely vary from estimates, and such variances may be material.

Total depletion expense for the three months ended March 31, 2006 and 2005 was $34,306 and $0, respectively.

(g) Asset Retirement Obligations

In the fourth quarter 2005, we adopted FASB Interpretation No. 47, "Accounting for Contingent Asset Retirement Obligations" ("FIN 47"), an interpretation of FASB Statement No. 143, "Asset Retirement Obligations" ("SFAS 143"). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS 143 refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated, even if conditional on a future event. For existing contingent asset retirement obligations which are determined to be recognizable under FIN 47, the company has recognized an estimated obligation of $285,000 for potential plugging, abandonment and/or remedial costs of our operations.

(h) Stock-based compensation

In December 2002, the Financial Accounting Standards Board issued Financial Accounting Standard No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS No. 148"), an amendment of Financial Accounting Standard No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"). The purpose of SFAS No. 148 is to: (1) provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation, (2) amend the disclosure provisions to require prominent disclosure about the effects on reported net income of an

2. Significant Accounting Policies (continued)

entity's accounting policy decisions with respect to stock-based employee compensation, and (3) to require disclosure of those effects in interim financial information. The disclosure provisions of SFAS No. 148 were effective for the Company commencing December 31, 2002.

The Company has elected to account for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", ("APB No. 25") and comply with the disclosure provisions of SFAS No. 123 as amended by SFAS No. 148 as described above. Under APB No. 25, compensation expense is recognized based on the difference, if any, on the date of grant between the estimated fair value of the Company's stock and the amount an employee must pay to acquire the stock. Compensation expense is recognized immediately for past services and pro-rata for future services over the option-vesting period.

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from other than employees in accordance with SFAS No. 123 and the conclusions reached by the Emerging Issues Task Force in Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services" ("EITF 96-18"). Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably measurable. The value of equity instruments issued for consideration other than employee services is determined on the earlier of a performance commitment or completion of performance by the provider of goods or services as defined by EITF 96-18.

The Company has also adopted the provisions of the Financial Accounting Standards Board Interpretation No.44, "Accounting for Certain Transactions Involving Stock Compensation - An Interpretation of APB Opinion No. 25" ("FIN 44"), which provides guidance as to certain applications of APB 25. FIN 44 is generally effective July 1, 2000 with the exception of certain events occurring after December 15, 1998.

In December 2004, FASB issued Statement No. 123 (R), Share-Based Payment, which establishes accounting standards for transactions in which an entity receives employee services in exchange for (a) equity instruments of the entity or (b) liabilities that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of equity instruments. Effective for periods beginning after December 15, 2005, SFAS 123(R) will require us to recognize the grant-date fair value of stock options and equity based compensation issued to employees in the statement of operations. The statement also requires that such transactions be accounted for using the fair-value-based method, thereby eliminating use of the intrinsic value method of accounting in APB No. 25, Accounting for Stock Issued to Employees, which was permitted under Statement 123, as originally issued. We currently are evaluating the impact of Statement 123 (R) on our financial condition and results of operations.

(i) Loss per Share

Basic loss per share has been computed by dividing the loss for the year applicable to the common stockholders by the weighted average number of common shares outstanding during the years. Convertible equity instruments such as stock options, warrants, convertible debentures and notes payable are excluded from the computation of diluted loss per share, as the effect of the assumed exercises would be antidilutive.

2. Significant Accounting Policies (continued)

(j) Revenue Recognition

The Company recognizes oil and gas revenue from its interests in producing wells as oil and gas is produced and sold from those wells. Oil and gas sold is not significantly different from the Company's share of production. Revenues from the purchase, sale and transportation of natural gas are recognized upon completion of the sale and when transported volumes are delivered. Shipping and handling costs in connection with such deliveries are included in production costs. Revenue under carried interest agreements is recorded in the period when the net proceeds become receivable, measureable and collection is reasonably assured. The time the net revenues become receivable and collection is reasonably assured depends on the terms and conditions of the relevant agreements and the practices followed by the operator. As a result, net revenues may lag the production month by one or more months.

3. Concentrations

At March 31, 2006, approximately 90% of the Company's revenues come from two gas wells in California. The loss of these wells, or a disruption in production from these wells, would adversely effect the operations of the Company.

4. Income Taxes

As of December 31, 2005, the Company had a net operating loss carryforward for income tax reporting purposes of approximately $1,313,000 that may be offset against future taxable income through 2025. Current tax laws limit the amount of loss available to be offset against future taxable income when a substantial change in ownership occurs. Therefore, the amount available to offset future taxable income may be limited. No tax benefit has been reported in the financial statements, because the Company believes there is a 50% or greater chance the carryforwards will expire unused. Accordingly, the potential tax benefits of the loss carryforwards are offset by a valuation allowance of the same amount.

5. Note Payable

On November 17, 2003, the Company repurchased 25,232,000 shares of its common stock from the previous president and treasurer. In connection, with this purchase the Company agreed to pay $150,000 for the common stock and the outstanding shareholder loan of $52,638 payable on or before March 15, 2004, at an interest rate of 6%. The loan due date has been extended and principal and interest are due on demand. As at March 31, 2006 and December 31, 2005, the Company owed $93,029 and $91,687 on this loan.

On April 2, 2004, the Company borrowed $305,000 from a third party for direct payment on oil and gas properties. The loan had an original due date of April 2, 2005 and bears interest of 5%. The note has been extended indefinitely. As at March 31, 2006 and December 31, 2005, the Company owed $282,129 and $332,703, respectively, on this loan. Accrued interest of $2,427 was capitalized at March 31, 2006.

6. Shareholder loan

The Company has borrowed money from a shareholder in order to pay general and administrative expenses. For purposes of these financial statements, interest has been calculated at an imputed interest rate of 6 percent. As at March 31, 2006 and December 31, 2005, the Company owed $3,176 and $3,130, respectively, relating to these notes.

7. Credit Line Note Payable

During the year ended December 31, 2004, the Company received $1,122,250 for a stock subscription of 1,122,250 common shares. On October 25, 2004, the Company renegotiated this transaction in the form of a Convertible Debenture Credit Line of up to $5 million. In 2004 this amount was reclassified from Common Stock to be Issued to a Current Liability. The Credit Line bares interest annual rate of Libor plus 2% percent and shall be payable 2 years from the issuance. The principal amount shall be convertible, in part for $1 per Preferred Series A Shares, at the option of the Company within the first six months and thereafter by the lender until the loan is satisfied or liquidated. The Preferred Shares shall be convertible to Common Stock on a basis equivalent to 20% of Common Stock of the Company then outstanding. As of December 31, 2004, the total amount due on the Convertible Debenture Credit Line was $1,222,335.

On November 15, 2005, we entered into a replacement promissory note in the amount of $2,050,000 with Chunuk Financial Corp., which replaces the variable rate convertible credit line agreement we entered into with Chunuk on October 24, 2004 in the principal amount of up to $5,000,000. As at March 31, 2006 and December 31, 2005, $1,292,197 and $1,790,501, respectively, was outstanding including accrued interest amounts.

8. Convertible Debenture

On November 18, 2005, we entered into a securities purchase agreement with Cornell Capital for an aggregate purchase price of $2,500,000, of which we have issued (i) a $1,250,000 secured convertible debenture, convertible into shares of our common stock, par value $0.001, and (ii) a warrant to purchase an aggregate of 9,000,000 additional shares of our common stock at an exercise price of $0.2708 per share exercisable until November 18, 2010. An additional $1,250,000 secured convertible debenture was issued on January 19, 2006, just prior to the filing of a registration statement. As at March 31, 2006 and December 31, 2005, $2,538,592 and $1,256,678, respectively, was the debenture loan outstanding including accrued interest.

The secured convertible debenture is convertible into shares of our common stock at any time by dividing the dollar amount being converted by the lower of $0.2708 or 80% of the lowest volume weighted average trading price per share of our common stock for five trading days immediately preceding the conversion date. The interest on the convertible debenture shall accrue on the outstanding principal balance at a rate of 5% per annum. As at March 31, 2006 and December 31, 2005, $31,914 and $6,678, respectively, was charged as an interest expense.

The Warrant's to purchase 9,000,000 of the Company's common stock will expire on November 21, 2010. The exercise price of the warrant is $0.02708 and an exercise period of five years. The Company accounts for the fair value of these outstanding warrants to purchase common stock and the conversion feature of its convertible notes in accordance with SFAS No. 133 "Accounting For Derivative Instruments And Hedging Activities" and EITF Issue No. 00-19 "Accounting For Derivative Financial Instruments Indexed To And Potentially Settled In A Company's Own Stock;" which requires the Company to bifurcate and separately account for the conversion feature and warrants as embedded derivatives contained in the Company's convertible notes.

Pursuant to SFAS No. 133, the Company bifurcated the fair value of the conversion feature from the convertible notes, since the conversion feature were determined to not be clearly and closely related to the debt host. In addition, since the effective registration of the securities underlying the conversion feature and warrants is an event outside of the control of the Company, pursuant to EITF Issue No. 00-19, the Company recorded the fair value of the conversion feature and warrants as long-term liabilities as it was assumed that the Company would be required to net-cash settle the underlying securities.

8. Convertible Debenture (continued)

The Company is required to carry these embedded derivatives on its balance sheet at fair value and unrealized changes in the values of these embedded derivatives are reflected in the consolidated statement of operation as "Gain (loss) on value of warrants and conversion feature.

Beneficial Conversion expense of the debenture that was recorded in 2005 was calculated by the Company based upon the difference between the market price of shares of the Company's stock as of the date of issuance and the conversion price applicable to the convertible debentures.

The value of the warrants have been calculated using the Black-Scholes method as of the date of grant based on the following assumptions: an average risk free rate of 3.25; a dividend yield of 0.00%; an average volatility factor of the expected market price of the Company's common stock of 2,184% for 2004; and an expected life of 5 years.

In addition 1,823,190 warrants have been issued to H.C Wainwright and First SB Inc. respectively, each exercisable at $0.30 with terms of 5 years from November 28, 2005. The value of these warrants have also been calculated using the Black-Scholes method as of the date of grant based on the following assumptions: an average risk free rate of 3.25; a dividend yield of 0.00%; an average volatility factor of the expected market price of the Company's common stock of 2,184%; and an expected life of 5 years.

	WARRANTS	CONVERSION DEBENTURE	TOTAL
Cornell Capital Partners, LP	$(1,260,000.00)	$ (733,013.34)	$(1,993,013.34)
H.C. Wainwright	$ (255,246.60)		$ (255,246.60)
1st SB Partners Ltd.	$ (255,246.60)		$ (255,246.60)
TOTAL BENEFICIAL CONVERSION EXPENSE			$(2,503,506.54)

9. Commitments

On January 1, 2006, the Company relocated its executive offices to 9595 Wishire Blvd., Ste. 900, Beverly Hills, CA 90212-2509. The Company currently rents this shared office facility on a month-to- month basis for $2,400 per month for all services.

10. Related Party Transactions

Silver Star Energy, Inc. ("Silver Star") is a partner in many of the Company's projects. On March 12, 2004, Fidelis entered into a Farmout Proposal on the North Franklin Prospect in California, under the terms of which Fidelis invested $250,000 and received a 20% Working Interest in the Prospect. In April, 2004, Fidelis entered into a second Farmout Proposal, on the same prospect, and acquired an additional 15% Working Interest for an additional $250,000 contribution, for an aggregate total interest of 35%.

On February 25, 2004, the Company purchased 17,430,000 of its common shares for a loan payable of $105,000. These shares were returned to treasury and cancelled. Interest at a rate of 6% has been imputed on the loan. As at March 31, 2006 and December 31, 2005, respectively, the Company owes $115,817 and $114,147 on this loan.

11. Common Stock

On November 17, 2003, the Company approved a 38:1 forward stock split. On March 26, 2004, the Company approved a 10:1 forward stock split. On December 10, 2004, the Company approved a 1.66:1 forward stock split. All references to common stock in the financial statements reflect the effects of these stock splits.

On January 26, 2004, the Company issued 14,608,000 common shares for cash.

On February 25, 2004, the Company purchased 17,430,000 of its common shares for a loan payable of $105,000. These shares were returned to treasury and cancelled.

On April 1, 2004, the Company authorized the issuance of 2,075,000 shares of common stock to its three directors for services rendered. As a result of this issuance, $425,000 in compensation expense was recorded.

On November 17, 2005, the Company issued 54,000,000 common shares as treasury stock held as collateral on the convertible debenture. The shares were recorded at the market value of the stock on the date of issuance, which was $0.20 per share.

12. Stock Options

Pursuant to a 2004 Stock Option and Compensation Plan, grants of shares can be made to employees, officers, directors, consultants and independent contractors of non-qualified stock options as well as for the grant of stock options to employees that qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986 or as non-qualified stock options. The Plan is administered by the Board of Directors ("Board"), which has, subject to specified limitations, the full authority to grant options and establish the terms and conditions for vesting and exercise thereof.

In order to exercise an option granted under the Plan, the optionee must pay the full exercise price of the shares being purchased. Payment may be made either: (i) in cash; or (ii) at the discretion of the Board, by delivering shares of common stock already owned by the optionee that have a fair market value equal to the applicable exercise price; or (iii) with the approval of the Board, with monies borrowed from us.

Subject to the foregoing, the Board has broad discretion to describe the terms and conditions applicable to options granted under the Plan. The Board may at any time discontinue granting options under the Plan or otherwise suspend, amend or terminate the Plan and may, with the consent of an optionee, make

12. Stock Options (continued)

such modification of the terms and conditions of such optionee's option as the Board shall deem advisable.

On March 17, 2004, the Board of Directors approved a stock option plan whereby 8,000,000 common shares have been set aside for employees, officers, directors and third party service providers to be distributed at the discretion of the Board of Directors. On March 17, 2004, 1,250,000 options were granted to the five officers/directors of the Company for an exercise price of $0.10 per share, increasing annually at 6% per annum from the grant date of March 17, 2004. The term of the options is 10 years. On April 1, 2004, the option grant was cancelled and replaced with an award for services of restricted stock.

The following table sets forth the options and warrants outstanding as of March 31, 2006 and December 31, 2005 :

	March 31, 2006

Options Outstanding, Beginning of period		-
Granted		-
Expired		-
Exercised		-
Options Outstanding, End of period		-
Exercise price for options outstanding, end of period	$	-

13. Oil and Gas Activities

For the quarter ending March 31, 2006 and the year ending December 31, 2005, respectively, the Company had revenues of $47,033 and $135,373 from the Comanche Point property.

In March of 2005, the Company received final approval to complete and has completed the tie in of the pipeline for the first North Franklin Gas Well in California. The Well has been in production since June, 2005. Also a second well at the North Franklin, the Archer-Wildlands #1 well was completed and has been in production since August, 2005. For the quarter ending March 31, 2006 and the year ending December 31, 2005, respectively, the Company had revenues of $451,850 and $1,203,993 from the North Franklin property.

14. Non-cash Activities

During the fiscal year 2005, the Company recognized a beneficial conversion expense of $2,503,507 related to a convertible debenture issued to Cornell Capital Partners, LP and the associated warrants issued.

15. Subsequent Events

Pursuant to a promissory note dated April 6, 2006, the Company borrowed $150,000 from a related party for a one year term at 5% interest. The Company expects to retire the note in the second quarter of 2006.

Pursuant to consulting agreements dated April 7, 2006, all of the directors and several affiliates of the Company were issued a total of 10,000,000 shares of common stock. A Form S8 was filed in relation to each share issuance on April 13, 2006. The shares issued under the agreement and resold under the Form S-8 will be subject to the volume restrictions contained in Rule 144(e) promulgated under the Securities Act of 1933, as amended.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with our financial statements, included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management. The information contained herein contains "forward looking statements." Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this report. Although management believes that the assumptions made and expectations reflected in the forward looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual future results will not be materially different from the expectations expressed in this Annual Report. The following discussion should be read in conjunction with the accompanying financial Statements and related notes thereto.

Overview

Fidelis Energy, Inc. ("Fidelis" or the "Company") is primarily in the business of acquiring and operating, as a working interest partner, smaller oil and gas leases, and exploratory oil and gas wells. The Company maintains relatively low overhead by contracting certain operating and investigative functions out to experienced, licensed geologists, geophysicists and private oil and gas operators.

Normally only those projects that are in close proximity to delivery systems such as pipelines or refineries will be pursued. Whereas there are large oil and gas fields that could be aggressively engaged, the management of the Company believes that the level of production required to justify the investment into such capital intensive infrastructures is of greater risk than the Company is willing to bear at present, and the necessary capital for such is currently unavailable to the Company. Hence, in the near future, the Company will only pursue those projects that can be tied into pipelines or trucked from onsite storage facilities to proximate refineries with minimal costs involved.

Noteworthy Corporate Events

The Company is pleased with the continuing monthly revenue being derived from Fidelis' 35% interest in the North Franklin Project, Sacramento California. Production is from the Company's two gas wells, the "Archer-Whitney #1" and "Archer-Wildlands #1". Since virtually all of the Company's revenue is derived from North Franklin Project, the Company is materially affected by significant fluctuations in prevailing natural gas prices.

The North Franklin Project is the Company's core asset and the near-term and continued development of the project is key to increasing monthly revenue. During the early part of this quarter, Fidelis continued to prepare for the drilling of its 3rd Franklin well, the "Archer-F 1" deep Forbes test.

On February 1, 2006, the Company announced the appointment of Mr. Glen D. Harder to its Board of Directors. Mr. Harder is a senior securities and corporate finance lawyer with approximately 20 years of experience in, among other things, structuring and capitalizing early stage corporations, acquisitions, mergers, takeovers, arrangements, corporate governance issues and public and private debt or equity financing transactions. Mr. Harder's law primarily oil and gas exploration and production and he represents public companies in both the United States and Canada.

On February 6, 2006, Fidelis announced the resignation of Mr. James Marshall from its Board of Directors and concurrently announced the appointments of Mr. Gordon Samson and Mr. Thomas Herdman to the Board. Mr. Samson is a senior accountant with approximately 20 years of experience in the financial arena. Mr. Herdman is a management consultant and financial translator for Pacific Rim companies.

During March, Fidelis continued with the drilling of the Archer F-1 and continued to evaluate the prospect and interpret the ongoing drilling logs for gas showings. The drilling program called for a deep (approximately 12,000 feet) test of the prospect and, in the process of drilling to depth, the drill passed through the "Winters" formation. The logs indicated a high likelihood that the Winters formation would again yield a commercially productive gas well. The Company continued into the "Forbes" zone and encountered a significant section of Forbes Sand that contained excellent gas shows. However, the Forbes sands were directly above other sand that contained high-pressure gas and salt water. During this operational period, the well lost circulation during the open hole conditioning for electric logs. The hole broke down within 100 feet of the shoe, took drilling fluid and allowed the well to flow gas and salt water, from the target zones into the well bore. The flow of gas and water from the Forbes reduced the hydrostatic column creating a highly unsafe condition to log or drill any further. Several days of conditioning the drilling fluid (increasing mud weight up to 15.9 lbs per gal) and numerous costly attempts to maintain a static well failed due to the salt water and gas cutting the mud weight needed to compensate for the higher than expected formation pressures. In an effort to protect the Winters pay interval, the Company and its project partners made a decision to plug the open hole below the casing shoe that was set at the bottom of the production casing. The plugging process included the setting of a cement retainer, and the drill pipe was pulled out of the hole in preparation for rig release. By setting the retainer and cementing, it may be possible to re-drill the lower hole and evaluate the gas shows encountered within the Forbes sands above the high-pressure water sands. Due to the foregoing, the Forbes was not fully evaluated or tested and there remains the potential for a commercial gas discovery in that zone.

Subsequent Events

Pursuant to a promissory note dated April 6, 2006, the Company borrowed $150,000 from a related party to have additional working capital available prior to the Company receiving its next revenue payment. The promissory is a one year term at 5% interest, but the Company expects to retire the note in the second quarter.

Pursuant to a consulting agreement dated April 7, 2006 with Robert McIntosh, the Company retained Mr. McIntosh, an experienced consulting geologist and public company management team member, to consult with respect to the business and strategic planning and to assist the President and the board of directors on an as-requested basis. The agreement ends on December 31, 2006, subject to termination as provided in the agreement. Fidelis issued 1,000,000 shares of common stock to Mr. McIntosh. A Form S8 was filed in relation to the share issuance on April 13, 2006. The shares issued under the agreement and resold under the Form S-8 will be subject to the volume restrictions contained in Rule 144(e) promulgated under the Securities Act of 1933, as amended.

Pursuant to a consulting agreement dated April 7, 2006 with David Naylor, the Company retained Mr. Naylor, an experienced financial consultant and public company management team member, to consult with respect to the business and strategic planning and to assist the President and the board of directors on an as-requested basis. The agreement ends on December 31, 2006, subject to termination as provided in the agreement. Fidelis issued 1,000,000 shares of common stock to Mr. Naylor. A Form S8 was filed in relation to the share issuance on April 13, 2006. The shares issued under the agreement and resold under the Form S-8 will be subject to the volume restrictions contained in Rule 144(e) promulgated under the Securities Act of 1933, as amended.

Pursuant to a consulting agreement dated April 7, 2006 with Glen D. Harder, the Company retained Mr. Harder to act as a director and consult with respect to the business and strategic planning and to assist the President and the board of directors on an as-requested basis. The agreement ends on December 31, 2006, subject to termination as provided in the agreement. Fidelis issued 2,000,000 shares of common stock to Mr. Harder. A Form S8 was filed in relation to the share issuance on April 13, 2006. The shares issued under the agreement and resold under the Form S-8 will be subject to the volume restrictions contained in Rule 144(e) promulgated under the Securities Act of 1933, as amended.

Pursuant to a consulting agreement amendment dated April 7, 2006 with W. Scott Marshall, the Company amended the January 1, 2006 consulting agreement with Mr. Marshall in order to provide for the issuance of 2,500,000 shares of common stock to Mr. Marshall. The agreement ends on December 31, 2006, subject to termination as provided in the agreement. A Form S8 was filed in relation to the share issuance on April 13, 2006. The shares issued under the agreement and resold under the Form S-8 will be subject to the volume restrictions contained in Rule 144(e) promulgated under the Securities Act of 1933, as amended.

Pursuant to a consulting agreement amendment dated April 7, 2006 with Sterling Klein, the Company amended the January 1, 2006 consulting agreement with Mr. Klein in order to allow for the issuance of 1,000,000 shares of common stock to Mr. Klein. The agreement ends on December 31, 2006, subject to termination as provided in the agreement. A Form S8 was filed in relation to the share issuance on April 13, 2006. The shares issued under the agreement and resold under the Form S-8 will be subject to the volume restrictions contained in Rule 144(e) promulgated under the Securities Act of 1933, as amended.

Pursuant to a consulting agreement amendment dated April 7, 2006 with Gordon A. Samson, the Company amended the January 1, 2006 consulting agreement with Mr. Samson in order to allow for the issuance of 1,500,000 shares of common stock to Mr. Samson. The agreement ends on December 31, 2006, subject to termination as provided in the agreement. A Form S8 was filed in relation to the share issuance on April 13, 2006. The shares issued under the agreement and resold under the Form S-8 will be subject to the volume restrictions contained in Rule 144(e) promulgated under the Securities Act of 1933, as amended.

Pursuant to a consulting agreement amendment dated April 7, 2006 with Thomas Herdman, the Company amended the January 1, 2006 consulting agreement with Mr. Herdman in order to allow for the issuance of 1,000,000 shares of common stock to Mr. Herdman. The agreement ends on December 31, 2006, subject to termination as provided in the agreement. A Form S8 was filed in relation to the share issuance on April 13, 2006. The shares issued under the agreement and resold under the Form S-8 will be subject to the volume restrictions contained in Rule 144(e) promulgated under the Securities Act of 1933, as amended.

Results of Operations

The Company has realized a net loss from operations of $4,090,499 since inception due primarily to a beneficial conversion expense and corporate finance fees associated with a convertible debenture financing completed by the Company. Additionally, legal, accounting and management fees necessary to bring the Company through the development stage to become a producer of oil and gas have added to the net loss position. During 2006, the Company has also incurred production costs of $115,815 and capitalized $826,496 in exploration costs related to its oil and gas leases and operations.

The Company had selling and marketing expenses from continuing operations of $41,191 and $867 for the three months ended March 31, 2006 and 2005. General and administrative expenses were $336,613 for three months ended March 31, 2006, which consisted mainly of officer and director consulting expenses, compared to $95,199 for the three months ended March 31, 2005.

Liquidity and Capital Resources

Cash and cash equivalents from inception have been insufficient to provide the operating capital necessary to operate the Company. The necessary capital to operate the Company was initially provided by the principals and founders of the Company in the form of both debt and capital stock issuances as set forth in the financial statements incorporated herein. In the first quarter, the proceeds necessary to operate the Company and provide for acquisition capital came from the proceeds of a convertible debenture financing and production revenue as previously disclosed.

In summary, the Company now has sufficient liquidity and capital resources to operate profitably due to the sale of gas from the tie-ins of the Archer-Whitney #1 and Archer-Wildlands #1 gas wells in 2005. The Company expects to continue to operate profitably and anticipates improving its financial position as production increases in the future. However, currently financing sources are being evaluated that would expedite the expansion of the Company's production going forward.

The Company recorded a net loss from operations of $300,129 for the three months ended March 31, 2006 compared to a net loss of $118,680 for the same period in 2005. The increase in the net loss was primarily attributed to one-time corporate finance fees associated with the closing of the second half of a convertible debenture financing.

Employees

As of March 31, 2006, the Company had no employees, however, all of the officers and directors did receive compensation for consulting and administrative services as previously disclosed.

Item 3. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for the Company.

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon the evaluation, the Company's President concluded that, as of the end of the period, the Company's disclosure controls and procedures were effective in timely alerting him to material information relating to the Company required to be included in the reports that the Company files and submits pursuant to the Exchange Act.

(b) Changes in Internal Controls

Based on his evaluation as of March 31, 2006, there were no significant changes in the Company's internal controls over financial reporting or in any other areas that could significantly affect the Company's internal controls subsequent to the date of his most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Title of Document
3i	Articles of Incorporation (1)
3ii	Bylaws (1)
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Incorporated by reference to the Registrant's registration statement on Form 10-SB filed on January 14, 2002

(b) Reports on Form 8-K filed.

On January 12, 2006, the Company filed on Form 8-K, under Item 3.02 Unregistered Sales of Equity Securities.

On February 13, 2006, the Company filed on Form 8-K, under Item 1.01 Entry Into a Material Definitive Agreement, and Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

On March 6, 2006, the Company filed on Form 8-K, under Item 3.02 Unregistered Sales of Equity Securities.

On April 10, 2006, the Company filed on Form 8-K, under Item 1.01 Entry Into a Material Definitive Agreement.

On April 26, 2006, the Company filed on Form 8-K, under Item 7.01 Regulation FD Disclosure.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized this May 15, 2006

Fidelis Energy, Inc.
(Registrant)

DATE: May 15, 2006

/S/ William Marshall

William Marshall
President
(Principal Executive Officer)

/S/ Sterling Klein

Sterling Klein
Secretary/Treasurer
(Principal Financial Officer)