MILLER PETROLEUM INC
Form 10KSB/A
March 01, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB/A

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended April 30, 2005

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _______ to _______

Commission File No. 033-02249-FW

MILLER PETROLEUM, INC.
(Name of small business issuer in its charter)

Tennessee	62-1028629
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

3651 Baker Highway
Huntsville, Tennessee 37756
(Address of Principal Executive Offices)

(423) 663-9457
(Registrant's Telephone Number, Including Area Code)

Securities Registered Under Section 12(b) of the Act: None

Securities Registered Under Section 12(g) of the Act: None

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ¨

The Registrant's revenues for the fiscal year ended April 30, 2005 were $1,030,036.

The aggregate market value of the Common Stock held by non-affiliates, based on the average closing bid and asked price of the Common Stock on July 25, 2005, was $6,440,780.80.

There are approximately 5,031,860 shares of common voting stock of the Registrant held by non-affiliates. On July 25, 2005 the average bid and asked price was $1.28.

As of July 25, 2005, there were 9,466,856 shares of common stock outstanding.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-KSB/A ("Form 10-KSB/A) to Miller Petroleum's Annual Report on Form 10-KSB for the fiscal year ended April 30, 2004, initially filed with the Securities and Exchange Commission (the "SEC") on August 30, 2005 (the "Original Annual Report"), is being filed to reflect responses to comments received from the SEC on February 1, 2006 concerning the Original Annual Report, as well as additional disclosure revisions deemed appropriate by current management.

In addition, the Original Filing has been amended to include currently dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

This Form 10-KSB/A does not reflect events occurring after the filing of the Original Annual Report or modify or update those disclosures affected by subsequent events.

Forward-Looking Statements

This annual report on Form 10-KSB ("Annual Report") for the period ending April 30, 2005 ("fiscal year 2005"), contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Disclosure Regarding Forward-Looking Statements Included in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included in this Form 10-KSB which address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements

As used in this Annual Report, the terms "we", "us", and "our" mean Miller Petroleum, Inc.

Glossary of Terms

We are engaged in the business of exploring for and producing oil and natural gas. Oil and gas exploration is a specialized industry. Many of the terms used to describe our business are unique to the oil and gas industry. The following glossary clarifies certain of these terms that may be encountered while reading this report:

"Bcf" means billion cubic feet, used in this annual report in reference to gaseous hydrocarbons.

"BcfE" means billions of cubic feet of gas equivalent, determined using the ratio of six thousand cubic feet of gas to one barrel of oil, condensate or gas liquids.

"Farmout" involves an entity's assignment of all or a part of its interest in or lease of a property in exchange for consideration such as a royalty.

"gross" oil or gas well or "gross" acre is a well or acre in which we have a working interest.

"Mcf" means thousand cubic feet, used in this annual report to refer to gaseous hydrocarbons.

"McfE" means thousands of cubic feet of gas equivalent, determined using the ratio of six thousand cubic feet of gas to one barrel of oil, condensate or gas liquids.

"MMcf" means million cubic feet, used in this annual report to refer to gaseous hydrocarbons.

"MBbl" means thousand barrels, used in this annual report to refer to crude oil or other liquid hydrocarbons.

"Net" oil and gas wells or "net" acres are determined by multiplying "gross" wells or acres by our percentage interest in such wells or acres.

"Oil and gas lease" or ***"Lease"*** means an agreement between a mineral owner, the lessor, and a lessee which conveys the right to the lessee to explore for and produce oil and gas from the leased lands. Oil and gas leases usually have a primary term during which the lessee must establish production of oil and or gas. If production is established within the primary term, the term of the lease generally continues in effect so long as production occurs on the lease. Leases generally provide for a royalty to be paid to the lessor from the gross proceeds from the sale of production.

"Prospect" means a location where both geological and economical conditions favor drilling a well.

"Proved oil and gas reserves" are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Reservoirs are considered proved if economic recovery by production is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and (B) the immediately adjoining portions not yet drilled, but which can reasonably be judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

"Proved developed oil and gas reserves" are those proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas reserves expected to be obtained through the application of fluid injection or other improved secondary or tertiary recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included as "proved developed reserves" only after testing by a pilot project or after the operation of an installed recovery program has confirmed through production response that increased recovery will be achieved.

"Proved undeveloped oil and gas reserves" are those proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units are claimed only where it can be demonstrated with reasonable certainty that there is continuity of production from the existing productive formation. Estimates for proved undeveloped reserves attributable to any acreage do not include production for which an application of fluid injection or other improved recovery technique is required or contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

"Royalty interest" is a right to oil, gas, or other minerals that are not burdened by the costs to develop or operate the related property.

"Working interest" is an interest in an oil and gas property that is burdened with the costs of development and operation of the property.

PART I

Item 1. Description of Business.

General Overview

We are actively engaged in the exploration, development, production and acquisition of crude oil and natural gas. Our business involves the operation of oil and gas wells, the acquisition of oil and gas leases and the rebuilding and sale of oil field equipment. Our principal activities are the acquisition, exploration, development and production of proven,

undeveloped and underdeveloped reserves independently and through joint venture drilling programs with other companies in the industry. Our properties are currently concentrated in eastern Tennessee.

Corporate History

We were founded in 1967 by Deloy Miller, our Chief Executive Officer, as a sole proprietorship. On January 22, 1978, we were incorporated under the laws of the State of Tennessee as “Miller Contract Drilling, Inc.” We changed our name to Miller Petroleum, Inc. on January 13, 1997.

Current Business

Our business includes the operation of oil and gas wells, acquisition and development of oil and gas leases, rebuilding and sales of oil field equipment and the organization of joint venture drilling programs with other companies in the industry.

Oil and Gas Leases

We presently have approximately 43,000 acres under lease in Tennessee and seek to acquire additional strategic acreage. We utilize seismic data, and other advanced technologies for geophysical exploration and development of oil and gas wells. In addition to our engineering and geological capabilities, we also have work over rigs, dozers, roustabout crews and equipment to set pumping units and tanks and lay flow lines, winch trucks and trailers for traveling support, backhoes, ditchers, fusion machines and welders for pipeline and compression installation, and other equipment necessary to take a well drilling program from the development stage to completion. The company also sells rigs, oilfield trailers, compressors and other miscellaneous oil and gas production equipment.

We are presently developing leases referred to as the Koppers North Field (the “Koppers North”) and the Koppers South Field (the “Koppers South”), which are located in Tennessee’s Appalachian Basin. These areas, in addition to our recent acquisition of the Carden Tract, which adjoins the Koppers North, form a 10,500 acre contiguous block in Campbell County, Tennessee and have more than one hundred and fifty possible developmental well locations. We are also continuing to develop approximately 3,400 acres leased from the Lindsay Land Company (the “Lindsay Field”) located near Caryville, Tennessee in Campbell County, which has twenty five possible developmental well locations. Prospects in Harriman, Tennessee (Roane County) (the “Harriman Prospect”) have recently been defined by a seismic study. We have completed the drilling of one well and plan to drill at least two more wells there this year.

Our current drilling program calls for the development of 100 Devonian (Chattanooga) Shale gas wells in the Koppers North, sixty Big Lime Formation oil/gas wells in the Koppers South and ten gas wells in the Lindsay Field.

On April 21, 2005, we began drilling operations of the Eula Butler Et Al #1 well, a deep wildcat in Roane County, to a depth of 6200 feet to the Knox dolomite, as a part of our joint venture with a large Appalachian based oil and gas company. A seismic study revealed a possibility of significant quantities of oil and gas from the nearby Trenton-Stones River limestone formations. The target depth is around 6200 feet and we anticipate that this well will be completed at the beginning of the next fiscal year.

On April 11, 2005, we signed an agreement with Norwest Energy, NL of Perth, Australia (“Norwest”) and Golden Triangle Energy of Houston, Texas (“GTE”) to develop the Koppers North and Carden Tract. GTE and Norwest will pay 100% of the cost to drill and complete the first twenty wells in five, five and ten well packages. We will retain a 25% working interest. After the completion of the first twenty wells, should Norwest and GTE continue to participate in development of the remaining acreage, we will pay a portion of the development costs which are proportionate to our 25% working interest therein.

Lease and Royalty Terms

Koppers Lease or "ARCO/GULF Farmout"

Located in Campbell County in Tennessee, this is the largest acreage block we have under lease. This acreage was acquired through a farmout agreement with Atlantic Richfield (“ARCO”), which has since merged into British Petroleum. We own a 100% working interest in approximately 27,000 acres. This lease provides for a landowner royalty of 12.5% and an overriding royalty interest of 7.5% with an 80% net royalty interest. The lease is split into two parcels. A 6,300 acre northern parcel borders the Kentucky state line and a 20,700 acre parcel borders the city of LaFollette, Tennessee. Currently, there are ten producing oil wells on the southern tract of this lease, consisting of Koppers 9b, 10b, 18b, 20b, 22b, 23b, 26b, 27b, 28b, 32b,. The ten wells have produced 163,983 barrels of oil from the Big Lime Formation through April 30, 2005. This lease remains in effect for as long as there is production. The Company has leased and is currently leasing smaller tracts of 50 to 1,000 acres adjacent to or near the Koppers South Fields acreage.

Carden Tract

This lease includes 4,200 acres in which we have a 100% working interest and an 81.25% net royalty interest. This tract joins the Koppers North parcel of 6,300 acres to form a 10,500 acre contiguous block in the north. We anticipate that this lease will produce gas because of previous drilling and production in the area by others in the industry. The lease has a three-year term with a five well drilling commitment.

Delta Producers, Inc. Joint Venture

We are continuing our joint venture with Delta Producers, Inc. of Greenville, Mississippi ("Delta Producers"). Currently, we are jointly producing ten gas wells in the Jellico, Tennessee area northwest of the Pine Mountain Thrust Fault. We have an average 25% working interest in gas wells in this area where several oil and gas leases consisting of approximately 2,000 acres (collectively the "Delta Leases"). All of the Delta Leases are subject to a 12.5% landowner's royalty. These leases remain in effect for as long as there is production.

As of April 30, 2005, we have drilled seven wells with Delta Producers, the Lindsay Field #9, #10, #11, #12, #13, #14 and #15 wells. The #11 well is awaiting completion and the remaining wells are producing and we are selling gas from them to the Powell-Clinch Utility District (“PCUD”), which serves the Harriman, Lake City and Lafollette, Tennessee areas. The production of gas in the Lindsay Field is from the Big Lime Formation. We have a 50% working interest in the Lindsay Field lease. The lease also provides for a landowner’s royalty of 12.5%. We purchased and built with Delta Producers more than four miles of three-inch and four-inch gathering lines to carry the gas to the market. This lease remains in effect for as long as there is production.

Well #	Date Began Sales of Natural Gas	Amount of Natural Gas Sold as of April 30, 2005 (Mcf)
9	3/02	85,165
10	1/03	29,057
11	*	*
12	3/02	194,432
13	8/03	38,090
14	8/03	24,721
15	11/03	20,707

(*) This well is awaiting completion.

Harriman Prospect Joint Venture

The Harriman Prospect Joint Venture includes several small leases in Roane County, Tennessee with a total acreage of approximately 3,500 acres. The net royalty interest is 87.5% with the landowners receiving a 12.5% royalty. We have a 50% working interest in these leases. In addition to the Eula Butler Et Al #1 well, additional wells are being planned on this area. There are several smaller leases that expire at different times. When drilled on, they will be held

by production."

5

Tengasco Farmout

We entered into a farmout agreement (the “Tengasco Farmout”) with Tengasco, Inc. (“Tengasco”) for ten wells to be drilled in the Swan Creek Field, located in Hancock County in Tennessee.

In August of 2000, we drilled our first oil well under the Tengasco Farmout, the Dewey Sutton #1 well, located in the Trenton formation. We have sold more than 16 MBbl and are currently producing about 200 barrels of oil per month from the Dewey Sutton #1 well.

Tengasco completed its pipeline and began buying natural gas from us on March 8, 2001 from the Worlie Purkey#1 well. We have sold 12,400 Mcf from this well. We started selling gas to Tengasco from the Worlie Purkey #3 well in May 2001. During the latter part of June 2001, we began selling from the Jeff Johnson #1 well. Through April 30, 2005, we have sold 50,080 Mcf of gas from the Worlie Purkey #3 and 78,249 Mcf of gas from the Jeff Johnson #1 to Tengasco. These leases will remain in effect for as long as there is production.

Additional Oil and Gas Leases and Wells

We have several small leases in Campbell, Fentress, Morgan and Overton counties in Tennessee totaling approximately 2,500 acres. Each of these leases is subject to a 12.5% to 20% landowner's royalty. There are thirteen producing oil wells and eight producing natural gas wells on these leases that have produced 148,693 barrels of oil and 291,996 Mcf of natural gas.

Oil and Gas Reserve Analyses

Our estimated net proved oil and gas reserves and the present value of estimated cash flows from those reserves are summarized below. The reserves were estimated by Netherland Sewell and Associates, Inc., independent petroleum engineers, in accordance with regulations of the Securities and Exchange Commission, using market or contract prices at the end of each of the years presented in the consolidated financial statements. These prices were held constant over the estimated life of the reserves.

Ownership interests in estimated quantities of proved oil and gas reserves and changes in net proved reserves, all of which are located in the continental United States, are summarized below for each of the years presented in the consolidated financial statements.

	Oil (Bbls)	Gas (Mcf)
Proved reserves		
Balance, April 30, 2003	208,821	5,365,057
Discoveries and extensions	68,903	718,160
Revisions of previous estimates	79,169	2,642,073
Production	(5,957)	(28,771)
Balance April 30, 2004	350,936	8,696,519
Discoveries and extensions	35,400	220,000
Revisions of previous estimates	(284,979)	(7,592,419)
Production	(7,532)	(74,534)
Balance April 30, 2005	93,825	1,249,566
Proved developed producing reserves at April 30, 2005	60,734	697,916

Proved developed producing reserves at April 30, 2004	62,106	1,035,850

Our standardized measure of discounted future net cash flows from our estimated proved oil and gas reserves is provided for the financial statement user as a common base for comparing oil and gas reserves of enterprises in the industry and may not represent the fair market value of our oil and gas reserves or the present value of future cash flows of equivalent reserves due to various uncertainties inherent in making these estimates. Those factors include changes in oil and gas prices from year-end prices used in the estimates, unanticipated changes in future production and development costs and other uncertainties in estimating quantities and present values of oil and gas reserves.

The following table presents the standardized measure of discounted future net cash flows from our ownership interests in proved oil and gas reserves as of the end of each of the years presented in the consolidated financial statements. The standardized measure of future net cash flows as of April 30, 2005 and 2004 are calculated using weighted average process in effect as of those dates. Those prices were $6.75 and $6.25 respectively, per Mcf of natural gas, and $44.50 and $32.75 respectively, per barrel of oil. The resulting estimated future cash inflows are reduced by estimated future costs to develop and produce the estimated proved reserves based on year-end cost levels. Future income taxes are based on year-end statutory rates, adjusted for any operating loss carryforwards and tax credits. The future net cash flows are reduced to present value by applying a 10% discount rate.

Standardized measures of discounted future net cash flows at April 30, 2005 and 2004 are as follows:

		2005		2004
Future cash flows	$	12,747,600	$	65,105,641
Future production costs and taxes		(1,939,000)		(2,769,464)
Future development costs		(745,000)		(4,740,000)
Future income tax expense		(3,119,716)		(17,854,815)
Future cash flows		6,943,884		39,741,362
Discount at 10% for timing of cash flows		(3,463,248)		(16,591,415)
Discounted future net cash flows from proved reserves	$	3,480,636	$	23,149,947

Changes in Standardized Measure of Discounted Future Net Cash Flows

The following table summarized the changes in the standardized measure of discounted future net cash flows from estimated production of our proved oil and gas reserves after income taxes for each of the years presented in the consolidated financial statements.

The following table sets forth the changes in the standardized measure of discounted future net cash flows from proved reserves for April 30, 2005 and 2004.

	April 30,			
		2005		2004
Balance, beginning of year	$	23,149,947	$	13,165,412
Sales, net of production costs and taxes		(784,409)		(773,033)
Changes in prices and production costs		7,490,059		9,737,935
Revisions of quantity estimates		(39,206,898)		5,505,439
Development costs incurred		3,995,000		-
Net changes in income taxes		8,836,937		(4,485,806)
Balances, end of year	$	3,480,636	$	23,149,947

The reserves presented in this Report were evaluated in accordance with Rule 4-10 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”).

Business Strategy: Growth through the Drillbit

Our goal is to maximize shareholder value through the execution of a business strategy designed to capitalize on our strengths and the continued expansion of our operations through the growth of our oil and gas reserves. We believe this can best be achieved by:

· Focusing on the development, drilling and production of natural gas and crude oil in east Tennessee's Appalachian Basin. Appalachian gas sells at a premium price to Henry Hub, due to its proximity to major consuming regions.

· Manage risk exposure by market testing prospects and optimizing our working interest--Drilling and development capital will be raised through partnership drilling programs where Miller keeps up to a 50% working interest, therefore limiting our financial and operating risks by varying our level of participation. We also seek to operate our projects in order to control costs associated with drilling and the timing of the drilling.

· Exploration Activities--During 2006 we plan to focus our exploration activities on projects that are near currently owned productive fields, we believe that we can successfully add growth through exploratory activities given the much improved technology, and our experienced technical staff. We have allocated approximately 1 million dollars to our 2006 development budget for exploration activities.

Principal Products or Services and Markets

The principal markets for our crude oil and natural gas are refining companies, utility companies and private industry end users.

Direct purchases of our crude oil are made statewide at our well sites by South Kentucky Purchasing Company, a refinery located in Somerset, Kentucky ("South Kentucky Purchasing").

Our natural gas has multiple markets throughout the eastern United States through gas transmission lines. Access to these markets is presently provided by four companies in North-Eastern Tennessee. Cumberland Valley Resources ("CV Resources") purchases our natural gas that is produced from the "Delta Leases." Nami Resources Company ("Nami Resources") purchases our gas from the Jellico West field and Tengasco services the Swan Creek production. Local markets in Tennessee are served by Citizens Gas Utility District ('Citizens Gas") and the Powell Clinch Utility District. Surplus gas is placed in storage facilities or transported to East Tennessee Natural Gas which serves Tennessee and Virginia.

We anticipate that our products will be sold to the aforementioned companies; however, no assurance can be given that we will be able to make such sales or that if we do, we will be able to receive a price that is sufficient to make our operations profitable.

Distribution Methods of Products or Services.

Crude oil is stored in tanks at the well site until the purchaser retrieves it by tank truck. Natural gas is delivered to the purchaser via gathering lines into the main gas transmission line.

Competition

Our oil and gas exploration activities in Tennessee are undertaken in a highly competitive and speculative business environment. In seeking any other suitable oil and gas properties for acquisition, we compete with a number of other companies located in Tennessee and elsewhere, including large oil and gas companies and other independent operators, many with greater financial resources than us.

At the local level, we have several competitors in the areas of the acreage which we have under lease in the State of Tennessee, five of which may be deemed to be significant. These are Consol Energy, Inc., Can Argo Energy Corporation ("CNR"), Champ Oil, John Henry Oil and Tengasco. These companies are in competition with us for oil and gas leases in known producing areas in which we currently operate, as well as other potential areas of interest.

Although, our management generally does not foresee difficulties in procuring logging, cementing and well treatment services in the area of our operations, several factors, including increased competition in the area, may limit the availability of logging equipment, cementing and well treatment services in the future. If such an event occurs, it may have a significant adverse impact on the profitability of our operations.

The prices of our products are controlled by the world oil market and the United States natural gas market; thus, competitive pricing behaviors in this regard are considered unlikely; however, competition in the oil and gas exploration industry exists in the form of competition to acquire the most promising acreage blocks and obtaining the

most favorable prices for transporting the product.

Dependence on One or a Few Major Customers

We are dependent on local purchasers of hydrocarbons to purchase our products in the areas where our properties are located. The loss of one or more of our primary purchasers may have a substantial adverse impact on our sales and on our ability to operate profitably.

Currently, we are selling natural gas to the following purchasers:

- Citizens Gas purchases natural gas from our wells in Scott County, Tennessee. Citizens is paying the Inside FERC Tn Zone 1 (Louisiana) monthly index less transportation costs. Sales to Citizens is less than 1% of our total natural gas sales.

- Nami Resources purchases our gas from the Jellico Field. The sales price varies each month but will not be less than $6.00 per Mcf. Sales to Nami Resources at the present time are approximately 25% of our total natural gas sales.

- Tengasco purchases natural gas from wells in the Swan Creek Field. Tengasco, Inc. is paying the New York Mercantile Exchange first of the month posting plus $0.05 less transportation charges. Sales to Tengasco are about 10 % of total natural gas sales.

- CV Resources purchases the gas produced from the joint venture with Delta Producers, Inc. in the Jellico East Field, Tennessee. The sales price is Appalachian Index minus Columbia transportation and fuel. Cumberland Valley Resources purchases approximately 20% of total natural gas sales.

- PCUD purchases the gas from the Lindsay Land Company lease which is another joint venture with Delta Producers. The sales price is Inside FERC Tn Zone 1 (Louisiana) monthly index less transportation costs. About 44% of our gas sales are to the PCUD.

- South Kentucky Purchasing purchases all of our crude oil. South Kentucky Purchasing’s purchase price is based on postings for the Illinois Basin less $2.50.

Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreements or Labor Contracts

Royalty agreements relating to oil and gas production are standard in the industry. The amounts of the royalty payments which we receive varies from lease to lease. (See Description of Business—“Current Business” in this Annual Report.)

Governmental Approval and Regulation

The production and sale of oil and gas are subject to regulation by federal, state and local authorities. None of the principal products that we offer require governmental approval, although permits are required for the drilling of oil and gas wells.

Our sales of natural gas are affected by intrastate and interstate gas transportation regulation. Beginning in 1985, the Federal Energy Regulatory Commission (“FERC”), which sets the rates and charges transportation and sale of natural gas, adopted regulatory changes that have significantly altered the transportation and marketing of natural gas. The stated purpose of FERC’s changes are to promote competition among the various sectors of the natural gas industry. In 1995, FERC implemented regulations generally grandfathering all previously approved interstate transportation rates

and establishing an indexing system for those rates by which adjustments are made annually based on the rate of inflation, subject to certain conditions and limitations. These regulations may tend to increase the cost of transporting oil and natural gas by pipeline. Every five years, FERC will examine the relationship between the change in the applicable index and the actual cost changes experienced by the industry. We are not able to predict with certainty what effect, if any, these regulations will have on us.

Tennessee law requires that we obtain state permits for the drilling of oil and gas wells and to post a bond with the Tennessee Gas and Oil Board (the "Oil and Gas Board") to ensure that each well is reclaimed and properly plugged when it is abandoned. The reclamation bonds cost $1,500 per well. The cost for the plugging bonds are $2,000 per well or $10,000 for ten wells. Currently, we have several of the $10,000 plugging bonds. For most of the reclamation bonds, we have deposited a $1,500 Certificate of Deposit with the Oil and Gas Board.

The state and regulatory burden on the oil and natural gas industry generally increases our cost of doing business and affects our profitability. While we believe we are presently in compliance with all applicable federal, state and local laws, rules and regulations, continued compliance (or failure to comply) and future legislation may have an adverse impact on our present and contemplated business operations. Because such federal and state regulation are amended or reinterpreted frequently, we are unable to predict with certainty the future cost or impact of complying with these laws.

Research and Development

We did not incur any research and development expenditures during the fiscal year ended April 30, 2005.

Environmental Compliance

We are subject to various federal, state and local laws and regulations governing the protection of the environment, such as the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), and the Federal Water Pollution Control Act of 1972, as amended (the "Clean Water Act"), which affect our operations and costs. In particular, our exploration, development and production operations, our activities in connection with storage and transportation of oil and other hydrocarbons and our use of facilities for treating, processing or otherwise handling hydrocarbons and related wastes may be subject to regulation under these and similar state legislation. These laws and regulations:

- restrict the types, quantities and concentration of various substances that can be released into the environment in connection with drilling and production activities;

- limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas; and

- impose substantial liabilities for pollution resulting from our operations.

Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal fines and penalties or the imposition of injunctive relief. Changes in environmental laws and regulations occur regularly, and any changes that result in more stringent and costly waste handling, storage, transport, disposal or cleanup requirements could materially adversely affect our operations and financial position, as well as those in the oil and natural gas industry in general. While we believe that we are in substantial compliance with current applicable environmental laws and regulations and that continued compliance with existing requirements would not have a material adverse impact on us, there is no assurance that this trend will continue in the future.

As with the industry generally, compliance with existing regulations increases our overall cost of business. The areas affected include:

- unit production expenses primarily related to the control and limitation of air emissions and the disposal of produced water;

- capital costs to drill exploration and development wells primarily related to the management and disposal of drilling fluids and other oil and natural gas exploration wastes; and

- capital costs to construct, maintain and upgrade equipment and facilities.

CERCLA, also known as “Superfund,” imposes liability for response costs and damages to natural resources, without regard to fault or the legality of the original act, on some classes of persons that contributed to the release of a “hazardous substance” into the environment. These persons include the “owner” or “operator” of a disposal site and entities that disposed or arranged for the disposal of the hazardous substances found at the site. CERCLA also authorizes the Environmental Protection Agency (“EPA”) and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. In the course of our ordinary operations, we may generate waste that may fall within CERCLA’s definition of a “hazardous substance.” We may be jointly and severally liable under CERCLA or comparable state statutes for all or part of the costs required to clean up sites at which these wastes have been disposed.

We currently lease properties that for many years have been used for the exploration and production of oil and natural gas. Although we and our predecessors have used operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed or released on, under or from the properties owned or leased by us or on, under or from other locations where these wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose actions with respect to the treatment and disposal or release of hydrocarbons or other wastes were not under our control. These properties and wastes disposed on these properties may be subject to CERCLA and analogous state laws. Under these laws, we could be required:

- to remove or remediate previously disposed wastes, including wastes disposed or released by prior owners or operators;
- to clean up contaminated property, including contaminated groundwater; or to perform remedial operations to prevent future contamination.
- to clean up contaminated property, including contaminated groundwater; or to perform remedial operations to prevent future contamination.

At this time, we do not believe that we are associated with any Superfund site and we have not been notified of any claim, liability or damages under CERCLA.

The Resource Conservation and Recovery Act (“RCRA”) is the principal federal statute governing the treatment, storage and disposal of hazardous wastes. RCRA imposes stringent operating requirements and liability for failure to meet such requirements on a person who is either a “generator” or “transporter” of hazardous waste or an “owner” or “operator” of a hazardous waste treatment, storage or disposal facility. At present, RCRA includes a statutory exemption that allows most oil and natural gas exploration and production waste to be classified as nonhazardous waste. A similar exemption is contained in many of the state counterparts to RCRA. As a result, we are not required to comply with a substantial portion of RCRA’s requirements because our operations generate minimal quantities of hazardous wastes. At various times in the past, proposals have been made to amend RCRA to rescind the exemption that excludes oil and natural gas exploration and production wastes from regulation as hazardous waste. Repeal or modification of the exemption by administrative, legislative or judicial process, or modification of similar exemptions in applicable state statutes, would increase the volume of hazardous waste we are required to manage and dispose of and would cause us to incur increased operating expenses.

The Clean Water Act imposes restrictions and controls on the discharge of produced waters and other wastes into navigable waters. Permits must be obtained to discharge pollutants into state and federal waters and to conduct construction activities in waters and wetlands. The Clean Water Act requires us to construct a fresh water containment barrier between the surface of each drilling site and the underlying water table. This involves the insertion of a seven-inch diameter steel casing into each well, with cement on the outside of the casing. The cost of compliance with

this environmental regulation is approximately $10,000 per well. Certain state regulations and the general permits issued under the Federal National Pollutant Discharge Elimination System program prohibit the discharge of produced waters and sand, drilling fluids, drill cuttings and certain other substances related to the oil and natural gas industry into certain coastal and offshore waters. Further, the EPA has adopted regulations requiring certain oil and natural gas exploration and production facilities to obtain permits for storm water discharges. Costs may be associated with the treatment of wastewater or developing and implementing storm water pollution prevention plans.

The Clean Water Act and comparable state statutes provide for civil, criminal and administrative penalties for unauthorized discharges for oil and other pollutants and impose liability on parties responsible for those discharges for the costs of cleaning up any environmental damage caused by the release and for natural resource damages resulting from the release. We believe that our operations comply in all material respects with the requirements of the Clean Water Act and state statutes enacted to control water pollution.

Our operations are also subject to laws and regulations requiring removal and cleanup of environmental damages under certain circumstances. Laws and regulations protecting the environment have generally become more stringent in recent years, and may in certain circumstances impose "strict liability," rendering a corporation liable for environmental damages without regard to negligence or fault on the part of such corporation. Such laws and regulations may expose us to liability for the conduct of operations or conditions caused by others, or for acts which may have been in compliance with all applicable laws at the time such acts were performed. The modification of existing laws or regulations or the adoption of new laws or regulations relating to environmental matters could have a material adverse effect on our operations.

In addition, our existing and proposed operations could result in liability for fires, blowouts, oil spills, discharge of hazardous materials into surface and subsurface aquifers and other environmental damage, any one of which could result in personal injury, loss of life, property damage or destruction or suspension of operations. We have an Emergency Action and Environmental Response Policy Program in place. This program details the appropriate response to any emergency that management believes to be possible in our area of operations. We believe we are presently in compliance with all applicable federal and state environmental laws, rules and regulations; however, continued compliance (or failure to comply) and future legislation may have an adverse impact on our present and contemplated business operations.

The foregoing is only a brief summary of some of the existing environmental laws, rules and regulations to which our business operations are subject, and there are many others, the effects of which could have an adverse impact on our business. Future legislation in this area will no doubt be enacted and revisions will be made in current laws. No assurance can be given as to what effect these present and future laws, rules and regulations will have on our current future operations.

Insurance

Our operations are subject to all the risks inherent in the exploration for, and development and production of oil and gas including blowouts, fires and other casualties. We maintain insurance coverage customary for operations of a similar nature, but losses could arise from uninsured risks or in amounts in excess of existing insurance coverage.

Employees

We currently have 11full-time employees, however, when we commence a full-scale drilling program, we may employ up to as many as 10 additional subcontractors or temporary employees.

Risk Factors

An investment in shares of our common stock involves a high degree of risk. Potential investors should consider the following factors, in addition to other information provided by us in our filings with the SEC, in evaluating our business and proposed activities before purchasing our shares.

General Risks Related To Our Business

Our business may fail if we do not raise additional money.

We will require additional funding to realize our future goals of conducting the oil and gas exploration operations on properties under lease and acquiring additional oil and gas properties for development. We anticipate that our additional funding will come from the sale of fractional working interests to investors participating in our oil and gas partnerships and equity or debt financing, which may be very difficult for our highly speculative enterprise. We can not assure you that any additional funding will be available to us, or if it is available, that the terms of the funding will be satisfactory to us.

Our business may fail if we do not succeed in our efforts to develop and replace oil and gas reserves.

Our future success will depend upon our ability to find, acquire and develop additional economically recoverable oil and gas reserves. Our proved reserves will generally decline as they are produced, except to the extent that we conduct revitalization activities, or acquire properties containing proved reserves, or both. To increase reserves and production, we must continue our development drilling and completion programs, identify and produce previously overlooked or bypassed zones in shut-in wells, acquire additional properties or undertake other replacement activities. Our current strategy is to increase our reserve base, production and cash flow through the development of our existing oil and gas fields and selective acquisitions of other promising properties where we can use new, existing technology. Despite our efforts, our planned revitalization, development and acquisition activities may not result in significant additional reserves, and we may not be able to discover and produce reserves at economical exploration and development costs. If we fail in these efforts, our business may also fail.

Our revenues may be less than expected if our oil and gas reserve estimates are inaccurate.

Oil and gas reserve estimates and the present values attributed to these estimates are based on many engineering and geological characteristics as well as operational assumptions that generally are derived from limited data. Common assumptions include such matters as the anticipated future production from existing and future wells, future development and production costs and the ultimate hydrocarbon recovery percentage. As a result, oil and gas reserve estimates and present value estimates are frequently revised to reflect production data obtained after the date of the original estimate. If reserve estates are inaccurate, production rates may decline more rapidly than anticipated, and future production revenues may be less than estimated. In addition, significant downward revisions of reserve estimates may hinder our ability to borrow funds in the future, or may hinder other financing arrangements that we may consider.

In addition, any estimates of future net revenues and their present value are based on period ending prices and on cost assumptions that only represent our best estimate. If these estimates of quantities, prices and costs prove inaccurate and we are unsuccessful in expanding our oil and gas reserves base, or if oil and gas prices decline or become unstable, we may have to write down the capitalized costs associated with our oil and gas assets. We will also largely rely on reserve estimates when we acquire producing properties. If we overestimate the potential oil and gas reserves of a property to be acquired, or if our subsequent operations on the property are not successful, the acquisition of the property could result in substantial losses.

Our current petroleum engineering report has substantially revised downward previous estimates of our petroleum reserves.

Our current petroleum engineer, Netherland Sewell & Associates, Inc. (“NSAI”), in its report dated June 28, 2005, estimated that our current petroleum “proven” reserves, calculated on the basis of a discounted cash flow analysis, are valued at approximately $3.5 million. This estimate is a significant reduction from the estimate at April 30, 2004 of approximately $23 million of proven reserves previously provided to us by our former petroleum engineering firm.

Our future success will depend on the price of oil and gas.

Our revenue comes primarily from the sale of oil and gas. Prices and markets for oil and gas are unpredictable, highly volatile, potentially subject to government fixing, pegging, controls or any combination of these or other factors and respond to changes in domestic, international, political, social, and economic environments. If oil and gas prices go below our costs and expenses of operating our company, we will lose money.

Oil and gas operations involve many physical hazards.

13

Natural hazards, such as excessive underground pressures, may cause costly and dangerous blowouts or make further operations on a particular well financially or physically impractical. Similarly, the testing and completion of oil and gas wells involves a high degree of risk arising from operational failures, such as blowouts, fires, pollution, collapsed casing, loss of equipment and numerous other mechanical and technical problems. Any of these hazards may result in substantial losses to us or liabilities to third parties. These could include claims for bodily injuries, reservoir damage, loss of reserves, environmental damage and other damages to people or property. Any successful claim against us would probably require us to spend large amounts on legal fees and any successful claim may make us liable for substantial damages.

Our dependence on outside equipment and service providers may hurt our profitability.

We need to obtain logging equipment and cementing and well treatment services in the area of our operations. Several factors, including increased competition in the area, may limit their availability. Longer waits and higher prices for equipment and services may reduce our profitability.

The oil and gas industry is highly competitive and there is no assurance that we will be successful in acquiring any further leases.

The oil and gas industry is intensely competitive. We compete with numerous individuals and companies, including major oil and gas companies, which have substantially greater technical, financial and operational resources and staffs. Accordingly, there is a high degree of competition for desirable oil and gas leases, suitable properties for drilling operations and necessary drilling equipment, as well as access to funds. We cannot predict if the necessary funds can be raised. There are also other competitors that have operations in our potential areas of interest and the presence of these competitors could adversely affect our ability to acquire additional leases.

If we lose the services of Deloy Miller, our operations may suffer.

We are substantially dependent upon the continued services of Deloy Miller, our CEO and a director. Mr. Miller has been with us since our inception. The relationships that he has formed in our industry and in the local area where our principal operations are conducted are invaluable, and could be lost to us without his services. Mr. Miller is in good health; however, his retirement, disability or death would seriously hurt our business operations. If his services become unavailable, we will have to retain other qualified personnel. We may not be able to recruit and hire another qualified person on acceptable terms. We do not have an employment contract with Mr. Miller.

Similarly, the oil and gas exploration industry requires the use of personnel with substantial technical expertise. If our current technical personnel become unavailable, we will need to hire qualified personnel to take their place. If we are not able to recruit and hire new people on mutually acceptable terms, our operations will suffer.

Compliance with governmental regulations can be costly and can limit our planned operations.

We face many state and federal laws, rules and regulations covering the safety of our operations, environmental conditions and other facets of our business. These laws, rules and regulations can be expensive and may seriously limit our ability to conduct our intended business operations. (See Description of Business--"Governmental Approvals and Regulation” and “Environmental Compliance.”)

Risks Related To Our Common Stock

The limited trading volume in our common stock may depress our stock price.

Our common stock is currently traded on a limited basis on the Over-the-Counter Bulletin Board ("OTCBB"). The quotation of our common stock on the OTCBB does not assure that a meaningful, consistent and liquid trading market currently exists. We cannot predict whether a more active market for our common stock will develop in the future. In the absence of an active trading market, investors may have difficulty buying and selling our common stock. Market visibility for our common stock may be limited. A lack of visibility of our common stock may have a depressive effect on the market price for our common stock.

You will not be able to elect our directors or officers.

Deloy Miller, our CEO, currently owns 43% of our stock, on a fully diluted basis. Although he does not have absolute voting control, he is still in a position to exert substantial influence on the election of all directors, who in turn elect all of the officers. You will have little or no ability to influence the direction of Miller Petroleum.

Indemnification of Directors, Officers, Employees and Agents

Miller Petroleum currently does not have a Directors and Officers Insurance Policy.

Available Information

We file annual, quarterly and current reports and other information with the Securities and Exchange Commission. You may read and copy any document we file at the SEC's public reference room at Room 1024, 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room.

In addition, we are electronic filers and our reports and information filed with the SEC are available on the SEC's website located at www.sec.gov.

Our website is located at *www.millerpetroleum.com*. Under the "Archive" section of the website, you may access our most recent press releases.

Item 2. Properties.

Our executive offices presently comprise approximately 6,300 square feet on 14 acres of land in Huntsville, Tennessee that the company owns.

Please see "Current Business" for a description of our oil and gas leases. Please also refer Management's Discussion and Analysis or Plan of Operation—"Results of Operations" for additional disclosure regarding our oil and gas operations in accordance with pursuant to Industry Guides 2 of the Securities and Exchange Act (the "Act").

Item 3. Legal Proceedings.

None.

Item 4. Submission of Matters to a Vote of Stockholders.

No proposals were submitted for approval by our shareholders during the fourth quarter ended April 30, 2005.

PART II

Item 5. Market For Common Equity and Related Stockholder Matters.

Market Information

Our common stock is quoted on the National Association of Securities Dealers Over-the-Counter Bulletin Board ("OTCBB") under the symbol "MILL." The following quotations, obtained from National Quotation Bureau, reflect the high and low bids for our shares for the periods indicated and are based on inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

15

Quarter Ended:	High	Low
	Bid Prices ($)	
July 31, 2003	0.55	0.55
October 31, 2003	0.68	0.45
January 31, 2004	0.45	0.35
April 30, 2004	0.91	0.59
July 31, 2004	1.01	1.01
October 31, 2004	0.45	0.38
January 31, 2005	0.38	0.38
April 30, 2005	0.90	0.90

Holders

There were approximately 275 stockholders of record of our common stock as of July 25, 2005.

Dividends

We have not paid or declared any cash dividends to date and do not anticipate paying any in the foreseeable future. There are no present restrictions that limit our ability to pay dividends or that are likely to do so in the future. We intend to retain earnings, if any, to support the growth of our business.

Shares Issuable Under Equity Compensation Plans

EQUITY COMPENSATION PLAN INFORMATION

The table below provides information, as of April 30, 2005, concerning securities authorized for issuance under equity compensation plans.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	--	--	--
Equity compensation plans not approved by shareholders	540,000(1)	1.30	**--**
Total	540,000	1.30	--

Recent Sales of Unregistered Securities

None.

Share Repurchases

None.

Item 6. Management's Discussion and Analysis or Plan of Operation.

The following discussion is intended to facilitate an understanding of our business and results of operations. It should be read in conjunction with our consolidated financial and the accompanying notes to the consolidated financial statements included elsewhere in this Annual Report.

We have more than approximately 43,000 acres under lease in Tennessee. About 90% of these leases are held by production. Most of our current oil and gas production is from the Big Lime Formation. However, there are more than 160 development drilling locations that target the Devonian (Chattanooga Shale) as well as the Big Lime Formation.

Currently, We are offering five to twenty well drilling programs to "accredited investors" or "sophisticated investors" to help spread the risk associated with drilling projects and to facilitate investor returns. We will sell up to a 70% working interest to investors while retaining a 30% working interest. Each program will be made up of five to fifteen Chattanooga Shale wells on its Koppers South acreage.

In June of 2001, we made a conventional Big Lime gas discovery, on the Lindsay Land Company lease jointly owned by Delta Producers, Inc. and Miller. Currently there are six producing wells on the property. There are at a minimum twenty five additional drill sites on this 3,400 acre lease which is situated near Caryville, Tennessee.

We are continuing our leasing efforts in the Eastern Tennessee portion of the Eastern Overthrust Belt, which runs from Eastern Canada through Appalachia into Alabama. Acreage is being leased there in selected areas.

Results of Operations

In fiscal 2005, we increased our capitalized costs of oil and gas properties from $2,638,005 to $2,941,832. Our development costs for oil and gas properties decreased from $565,779 to $549,687. Estimates of proved reserves of oil decreased from 350,937 barrels to 93,825 and estimates of proved reserves of natural gas decreased from 8,696,519 Mcf to 1,249,566 Mcf. Proved developed producing reserves of oil decreased to 60,734 barrels from 62,106 barrels and proved developed producing reserves of natural gas decreased to 697,916 Mcf from 1,035,850 Mcf. These decreases were primarily due to a change in the evaluations by our new engineering firm NSAI, which reclassified previous estimates of proved reserves as possible and probable. (See Description of Business—"Oil and Gas Reserve Analyses." in this Annual Report.) During fiscal 2005, future cash flows discounted 10% after income taxes from proved reserves decreased from $23,149,947 to $3,480,639. Our oil and gas revenue was $784,409 for fiscal 2005, up from $773,033 for fiscal 2004. Volatile changes in the price of natural gas and oil partially offset by normal declines in our production curves brought about this increase. During fiscal 2005, service and drilling revenue was $209,680, down from $1,186,823, in part due to the disposal of a drilling rig. Cost of revenue from service and drilling decreased by $682,943 from Fiscal 2004 to Fiscal 2005. The drilling rig was old and in need of major repairs. To acquire new drill pipe, hammers and a compressor would cost $320,000, and likely the motor would need to be replaced to continue using the rig. The cost of repairs, combined with high worker's compensation insurance rates, would have resulted in a negative cash flow to the Company. At the time the rig was sold it was not being utilized, and management believed that it was in the best interests of the Company sell the rig and use the funds to enhance the Company's oil and gas leases. Retail sales increased from $6,939 in fiscal 2004, to $35,947 in fiscal 2005 primarily due to the market volatility, and are included in service and drilling revenue for financial statement purposes.

During fiscal 2005, Miller Petroleum produced 75 MMBTUs of natural gas, with an average price of $6.28 per MMBTU. Production decreased from about 88 MMBTUs in fiscal 2004, and the average price per MMBTU was $5.63. The following tables reflect our production figures for the fiscal years ended April 30, 2005, and 2004

Fiscal Year	Average Net Production Gas /MBTU		Sales Price /MMBTU
2004	88,000	$	5.63
2005	75,000	$	6.28

Fiscal Year	Average Net Barrels of Oil		Sales Price
2004	10,100	$	27.30
2005	7,500	$	40.48

	2003	2004	2005
Net Productive Wells	22.60	20.20	20.20
Developed Acreage	1,480	1,480	1,480
Undeveloped Acreage	41,120	41,120	41,120
Net Productive Exploratory Wells	0	0	0
Net Dry Exploratory Wells	0.24	0.30	0.30
Net Productive Developmental Wells	1.408	1.20	1.20
Net Dry Developmental Wells	0	0	0

Liquidity

Cash provided by operating activities was $154,580 for fiscal 2005, a reduction of $203,287 from operating activities of $357,867 in fiscal 2004. Our principal source of liquidity has been oil and gas revenues, loans from related parties and directors, private placement transactions of our common stock, and participation with investors in various oil and gas wells. The increase in oil and gas prices and the fact that we have approximately 43,000 acres under lease in Tennessee enhances our ability to attract investors and to pursue joint ventures in oil and gas. This is reflected by the our entry into a convertible loan on May 9, 2005 for $4,150,000, secured by our assets which paid off most of our liabilities and provided approximately $800,000 for operations and drilling and completing oil and gas wells. Also, during May and June of 2005 we received $1,175,000 as a part of our joint venture with GTE and Norwest for the initial drilling and completion of five (5) wells**.** Our long-term cash flows are subject to a number of variables including the level of production and prices as well as various economic conditions that have historically affected the oil and gas business. A material drop in oil and gas prices or a reduction in production and reserves would reduce our ability to fund capital expenditures, reduce debt, meet financial obligations and remain profitable. We operate in an environment with numerous financial and operating risks, including, but not limited to, the inherent risks of the search for, development and production of oil and gas, the ability to buy properties and sell production at prices which provide an attractive return and the highly competitive nature of the industry. Our ability to expand our reserve base is, in part, dependent on obtaining sufficient capital through internal cash flow or the issuance of debt or equity securities. There can be no assurance that internal cash flow and other capital sources will provide sufficient funds to maintain capital expenditures that we believe are necessary to offset future declines in production and proved reserves.

Subsequent to year end, we drilled ten (10) gas wells on four (4) properties. Based on flow tests, seven (7) of the wells are producing gas. Our net production volume was expected to be about 600,000 Mcf per month. We expect these wells to produce an additional $8,000 to $10,000 per month in net gas revenues beginning in October to November 2005.

Item 7. Financial Statements.

INDEX TO FINANCIAL STATEMENTS

Report of Independent Certified Public Accountants	21
Consolidated Balance Sheet	22-23
Consolidated Statements of Operations	24
Consolidated Statements of Stockholders' Equity	25
Consolidated Statements of Cash Flows	26
Notes to the Consolidated Financial Statements	27-43

MILLER PETROLEUM, INC.

CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2005 and 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors Miller Petroleum, Inc. and Subsidiary
Huntsville, Tennessee

We have audited the accompanying consolidated balance sheets of Miller Petroleum, Inc. and its subsidiary as of April 30, 2005 and April 30, 2004 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Miller Petroleum, Inc. and its Subsidiary as of April 30, 2005 and 2004, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the Company has restated its financial statements for the year ended April 30, 2004 to properly reflect transactions in its common stock.

/s/ Rodefer Moss & Co, PLLC

Knoxville, Tennessee
July 28, 2005

Miller Petroleum, Inc.
Consolidated Balance Sheets

	April 30, 2005	Restated April 30, 2004
ASSETS		
CURRENT ASSETS		
Cash	$ 2,362	$ 2,416
Accounts receivable	182,951	117,167
Current portion of note receivable	47,000	18,875
Inventory	67,389	50,911
Deferred offering costs	88,842	88,842
Prepaid expenses	—	66,590
Total Current Assets	388,544	344,801
FIXED ASSETS		
Machinery	941,601	1,036,802
Vehicles	333,583	385,465
Buildings	313,335	313,335
Office equipment	72,549	72,549
Less: accumulated depreciation	(939,579)	(905,531)
Total Fixed Assets	721,489	902,620
OIL AND GAS PROPERTIES	2,941,832	2,638,005
(On the basis of successful efforts accounting)		
PIPELINE FACILITIES	206,298	218,637
OTHER ASSETS		
Land	496,500	511,500
Investments	500	500
Well equipment and supplies	431,462	443,942
Long-term notes receivable	—	56,338
Cash - restricted	71,000	71,000
Total Other Assets	999,462	1,083,280
TOTAL ASSETS	$ 5,257,625	$ 5,187,343

See notes to consolidated financial statements.

Miller Petroleum, Inc.
Consolidated Balance Sheets

	April 30, 2005	Restated April 30, 2004
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	$ 330,620	$ 335,556
Accrued expenses	224,306	116,011
Current portion of notes payable		
Related parties	—	1,360,000
Other	—	176,624
Total Current Liabilities	554,926	1,988,191
LONG-TERM LIABILITIES		
Notes payable		
Related parties	1,673,693	269,230
Other	655,646	616,739
Total Long-Term Liabilities	2,329,339	885,969
Total Liabilities	2,884,265	2,874,160
STOCKHOLDERS' EQUITY		
Common Stock: 500,000,000 shares authorized at $0.0001 par value, 9,396,856 and 8,378,856 shares issued and outstanding	939	838
Additional paid-in capital	4,495,498	4,173,998
Accumulated deficit	(2,123,077)	(1,861,653)
Total Stockholders' Equity	2,373,360	2,313,183
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 5,257,625	$ 5,187,343

See notes to consolidated financial statements.

23

MILLER PETROLEUM, INC.
Consolidated Statements of Operations

	For the Year Ended April 30, 2005	Restated For the Year Ended April 30, 2004
REVENUES		
Oil and gas revenue	$ 784,409	$ 773,033
Service and drilling revenue	245,627	1,193,762
Total Revenue	1,030,036	1,966,795
COSTS AND EXPENSES		
Oil and gas cost	177,287	228,301
Service and drilling cost	82,730	765,673
Selling, general and administrative	604,040	567,112
Depreciation, depletion and amortization	366,279	233,439
Total Costs and Expenses	1,230,336	1,794,525
INCOME (LOSS) FROM OPERATIONS	(200,300)	172,270
OTHER INCOME (EXPENSE)		
Interest income	875	1,918
Gain on sale of equipment	157,562	42,897
Interest expense	(219,561)	(228,436)
Total Other Expense	(61,124)	(183,621)
INCOME TAXES	—	—
NET LOSS	$ (261,424)	$ (11,351)
BASIC AND DILUTED LOSS PER SHARE	$ (0.03)	$ (0.00)
BASIC WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	9,030,738	8,350,048

See notes to consolidated financial statements.

24

MILLER PETROLEUM, INC.
Consolidated Statements of Stockholders' Equity

	Common Shares	Shares Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Restated balance, April 30, 2003	8,293,856	$ 830	$ 4,000,871	($1,850,302)	$ 2,151,399
Issuance of shares in connection with deferred offering	85,000	8	88,834	—	88,842
Issuance of warrants as prepayment of financing costs	—	—	59,293	—	59,293
Issuance of options for services	—	—	25,000	—	25,000
Net loss for the year ended April 30, 2004	—	—	—	(11,351)	(11,351)
Restated balance, April 30, 2004	8,378,856	838	4,173,998	(1,861,653)	2,313,183
Sales of restricted shares for cash at discounts from market for free-trading shares	275,000	27	79,974	—	80,001
Issuance of restricted shares for services at prevailing discounts from market for free trading shares	113,000	11	42,589	—	42,600
Issuance of restricted shares for leasehold interests in mineral rights at prevailing discount from market price for free-trading shares	500,000	50	105,950	—	106,000
Issuance of shares for cash	20,000	2	15,998	—	16,000
Issuance of shares for services	110,000	11	76,989	—	77,000
Net loss for the year ended April 30, 2005	—	—	—	(261,424)	(261,424)
Balance April 30, 2005	9,396,856	$ 939	$ 4,495,498	$ (2,123,077)	$ 2,373,360

See notes to consolidated financial statements.

Miller Petroleum, Inc.
Consolidated Statements of Cash Flows

	April 30, 2005	Restated April 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (261,424)	$ (11,351)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation, depletion and amortization	393,061	265,950
Gain on sale of equipment	(157,562)	(42,897)
Options issued in exchange for services	—	25,000
Common Stock issued in exchange for services	119,600	—
Changes in Operating Assets and Liabilities:		
Increase in accounts receivable	(65,784)	(8,894)
Increase in inventory	(16,478)	(13,092)
Decrease (increase) in prepaid expenses	39,808	(10,398)
Increase (decrease) in accounts payable	(4,936)	121,729
Increase in accrued expenses	108,295	31,820
Net Cash Provided by Operating Activities	154,580	357,867
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	—	12,812
Proceeds from sale of land	15,000	—
Purchase of equipment	(1,500)	(113,834)
Purchase of oil and gas properties	(386,687)	(565,779)
Proceeds from sale of equipment	187,682	392,499
Decrease in restricted cash	—	3,000
Changes in note receivable	28,125	14,201
Net Cash Used by Investing Activities	(157,380)	(257,101)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of stock	96,001	—
Payments on Notes Payables	(137,716)	(502,376)
Proceeds from borrowings	44,461	400,662
Net Cash Provided (Used) by Financing Activities	2,746	(101,714)
NET DECREASE IN CASH	(54)	(948)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,416	3,364
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,362	$ 2,416

See notes to consolidated financial statements.

26

MILLER PETROLEUM, INC.
Notes to the Consolidated Financial Statements
April 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Oganization and Basis of Presentation

These consolidated financial statements include the accounts of Miller Petroleum, Inc. (“The Company”) formerly Triple Chip Systems, Inc. and the accounts of its subsidiary, Miller Pipeline Company, Inc. All inter-company balances have been eliminated in consolidation.

The Company’s principal business consists of oil and gas exploration, production and related property management in the Appalachian region of eastern Tennessee and in the state of Texas. The Company’s corporate offices are in Huntsville, Tennessee. The Company operates as one reportable business segment, based on the similarity of activities

The Company formed Miller Pipeline Corporation Inc. (“MPC, Inc.”), a wholly-owned subsidiary, to manage the construction and operation of the gathering system used to transport natural gas to market.

b. Accounting Method

The Company follows the successful efforts method of accounting for its oil and gas activities. Accordingly, costs associated with the acquisition, drilling and equipping of successful exploratory wells are capitalized. Geological and geophysical costs, delay and surface rentals and drilling costs of unsuccessful exploratory wells are charged to expense as incurred. Costs of drilling development wells are capitalized. Upon the sale or retirement of oil and gas properties, the cost thereof and the accumulated depreciation or depletion are removed from the accounts and any gain or loss is credited or charged to operations.

Depreciation, depletion and amortization of capitalized costs of proved oil and gas properties is provided on a field by field basis using the units-of-production method based upon proved reserves. Acquisition costs are amortized by using total proved reserves as the denominator. Development costs are amortized using proved developed reserves, rather than total proved reserves, as the denominator.

Pipeline and facilities are stated at original cost. Depreciation of pipeline and facilities is provided on a straight-line basis over the estimated useful life of the pipeline of forty years.

c. Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” requires that an asset be evaluated for, impairment when the carrying amount of an asset exceeds the sum of the undiscounted estimated future cash flows of the asset. In accordance with the provisions of SFAS 144, the Company reviews the carrying values of its long-lived assets whenever events or changes in circumstances indicate that such carrying values may not be recoverable. If, upon review, the sum of the undiscounted pretax cash flows is less than the carrying value of the asset group, the carrying value is written down to estimated fair value. Individual assets we grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets, generally on a field-by-field basis. The fair value of impaired assets is determined based on quoted market prices in active markets, if available, or upon the present values of expected future cash flows using discount rates commensurate with the risks involved in the asset group. The long-lived assets of the Company, which are subject to evaluation, consist primarily of oil and gas properties. For the years ended April 30, 2005 and 2004 the Company has recognized no changes or allowances for impairment.

27

MILLER PETROLEUM, INC.
Notes to the Consolidated Financial Statements
April 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Net earnings (loss) per share:

The Company presents “basic” earnings (loss) per share and, if applicable, “diluted” earnings per share pursuant to the provisions of Statement of Financial Accounting Standards No. 128. “Earnings Per Share” Basic earnings (loss) per share is calculated by dividing net income or loss by the weighted average number of common shares outstanding during each period. The calculation of diluted earnings per share is similar to that of basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, such as those issuable upon the exercise of stock options and warrants, were issued during the period.

Since the Company had a net loss for the years ended April 30, 2005 and 2004, the assumed effects of the exercise of the options and warrants to purchase 555,177 and 2,435,672 and shares of common stock that were outstanding at April 30, 2005 and 2004, respectively, and the application of the treasury stock method would have been anti-dilutive. Therefore, there are no diluted per share amounts in the 2005 and 2004 statements of operations.

e. Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

f. Principles of Consolidation

The consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiary MPC, Inc. All significant intercompany transactions have been eliminated.

g. Fixed Assets

Fixed assets are stated at cost. Depreciation and amortization are computed using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. The estimated useful lives are as follows:

Class	Lives (Years)
Building	40
Machinery and equipment	5-20
Vehicles	5-7
Office equipment	5

Depreciation expense for the years ended April 30, 2005 and 2004 was $120,419 and $182,047 respectively.

MILLER PETROLEUM, INC.
Notes to the Consolidated Financial Statements
April 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Revenue Recognition

Oil and gas production revenue is recognized as income as production is extracted and sold. Service and drilling income is recognized at the time it is both earned and we have a contractual right to receive the revenue. Turnkey contracts not completed at year end are reported on the completed contract method of accounting. There were no uncompleted contracts at the end of fiscal 2005 and 2004. Retail sales of various parts and equipment is recognized as income at the time the item is sold and, under the 10% rule, has been combined with service and drilling revenue.

i. Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk are primary cash and cash equivalents and accounts receivable. The Company places its cash investments, which at times may exceed federally insured amounts, in highly rated financial institutions.

Accounts receivable arise from sales of gas and oil, equipment and services. Credit is extended based on the evaluation of the customer’s creditworthiness, and generally collateral is not required. Accounts receivable more than 45 days old are considered past due. The Company does not accrue late fees or interest income on past due accounts. Management uses the aging of accounts receivable to establish an allowance for doubtful accounts. Credit losses are written off to the allowance at the time they are deemed not to be collectible. Credit losses have historically been minimal and within management’s expectations. The allowance for doubtful accounts was $6,944 and $8,684 at April 30, 2005 and 2004, respectively. Accounts receivable more than 90 days old were $32,498 at April 30, 2005 and $ 22,722 at April 30, 2004.

j. Inventory

Inventory consists primarily of crude oil in tanks and is carried at market value.

k. Well Equipment and Supplies

Well equipment represent equipment held by the Company and is carried at salvage value. When well equipment is acquired by the Company in basket purchases, the cost is applied only to the marketable portion of the equipment.

l. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported on the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The most significant assumptions are for asset retirement obligation liabilities and estimated reserves of oil and gas. Oil and gas reserve estimates are developed from information provided by the Company’s management to Netherland Sewell and Associates, Inc., of Dallas Texas (“NSAI”) and Glover Petroleum Consultants, of Crossville, Tennessee (“Glover”), for the years ended April 30, 2005 and 2004, respectively. In 2005, management’s estimate of its proved reserves was revised downward from approximately 350,000 barrels of oil to about 94,000, and its proved reserves estimates for natural gas were revised from about 8,700,000 thousand cubic feet (“Mcf”) to about 1,200,000 Mcf. This revision was the result primarily of NSAI’s reclassification of proved reserves to probable and possible reserves. While reserves are not

reflected on the Company's balance sheet, the revision in estimate did affect the 2005 depletion expense associated with its oil and gas properties, which is calculated on the basis of proved reserves only. The change was accounted for as a revision in an estimate, and the effect on net income was approximately $160,000 or $0.02 per basic diluted share of common stock.

MILLER PETROLEUM, INC.
Notes to the Consolidated Financial Statements
April 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. Reclassifications

Certain amounts and balances pertaining to the April 30, 2004 financial statements have been reclassified to conform with the April 30, 2005 financial statement presentations.

n. Stock Warrants

The Company measures its equity transactions with non-employees using the fair value based method of accounting prescribed by Statement of Financial Accounting Standards No. 123. The Company continues to use the intrinsic value approach as prescribed by APB Opinion No. 25 in measuring equity transactions with employees.

o. Income Taxes

The Company accounts for income taxes using the “asset and liability method.” Accordingly, deferred tax liabilities and assets are determined based on the temporary differences between the financial reporting and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets arise primarily from net operating loss carry forwards. Management evaluates the likelihood of realization of such assets at year-end reserving any such amounts not likely to be recovered in future periods.

p. Recent Accounting Pronouncements

In June 2003, the FASB approved SFAS 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity” SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise was effective at the beginning of the first interim period beginning after June 15, 2003. SFAS 150 did not have an effect on the Company’s financial position.

In December 2003, the FASB issued a revised interpretation No 46, “Consolidation of Variable Interest Entities.” The interpretation clarifies the application of Accounting Research Bulletin No. 51, “Consolidated Financial Statements,” to certain types of entities. Adoption did not have an impact on the Company’s financial statements.

In March 2004, The Emerging Issues Task Force (“EITF”) reached a consensus that mineral rights, as defined in EITF Issue No. 04-02, “Whether Mineral Rights are Tangible or Intangible Asset,” are tangible assets and that they should be removed as examples of intangible assets in SFAS Nos. 141 and 142. The FASB has recently ratified this consensus and directed the FASB staff to amend SFAS Nos. 141 and 142 through the issuance of FASB Staff Positions FSP FAS 141-1 and FSP FAS 142-1. Historically the Company has included the cost of such mineral rights as tangible assets, which is consistent with the EITF’s consensus. As such, EITF 04-02 is not expected to affect the Company’s consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123R, “Share-Based Payment.” This statement is a revision to SFAS No. 123, “Accounting for Stock-Based Compensation” and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees.” This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. Companies will be required to measure the

cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service, the requisite service period (usually the vesting period), in exchange for the award. The grant date fair value of employee share options and similar instruments will be estimated using option-pricing models.

30

MILLER PETROLEUM, INC.
Notes to the Consolidated Financial Statements
April 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modifications for small business issuers. SFAS No. 123R will be effective for periods beginning after December 15, 2005. Accordingly, the Company will adopt SFAS No. 123R in its fourth quarter of fiscal 2006. The Company is currently evaluating the provisions of SFAS No. 123R and has not determined the impact that this Statement will have on its results of operations or financial position.

In April 2005, the FASB issued Staff Interpretation No. 19-1 FSP FAS 19-1 (“FSP 19-1”) “Accounting for Suspended Well Costs,” which provides guidance on the accounting for exploratory well costs and proposes an amendment to FASB Statement No. 19 (“FASB 19”), “Financial Accounting and Reporting By Oil and Gas Producing Companies.” The guidance in FSP 19-1 applies to enterprises that use the successful efforts method of accounting as described in FASB 19. The guidance in FSP 19-1 is not expected to impact the consolidated financial position, result of operations or cash flows.

q. Major Customers

The Company depends upon local purchasers of hydrocarbon in the areas where its properties are located. The Company has three major customers. The loss of one or more purchasers may substantially reduce its sales and ability to operate profitably. These major customers are:

Delta Producers, Inc. accounted for $406,246 of the Company’s total revenue which was about 39% of the Company’s total revenue.

Nami Resources