MILLER PETROLEUM INC
Form 10KSB
August 23, 2006

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

FORM 10-KSB

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

For the fiscal year ended April 30, 2006

¨ 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 is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

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 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, 2006 were $2,538,772.

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 August 11, 2006, was $5,393,981.

There are approximately shares of common voting stock of the Registrant held by non-affiliates. On August 11, 2006 the average bid and asked price was $0.90.

1

As of August 11, 2006, there were 14276,856 shares of common stock outstanding.

2

Forward-Looking Statements

This annual report on Form 10-KSB (“Annual Report”) for the period ending April 30, 2006 (“fiscal year 2006”), 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.

FORM 10-KSB
FOR THE FISCAL YEAR ENDED APRIL 30. 2006

INDEX

		Page
	PART I	
Item 1	Description of Business	6
Item 2	Description of Property	14
Item 3	Legal Proceedings	18
Item 4	Submission of Matters to a Vote of Security Holders	18
	PART II	
Item 5	Market for Common Equity and Related Stockholder Matters	18
Item 6	Management's Discussion and Analysis or Plan of Operations	19
Item 7	Financial Statements	24
Item 8	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	47
Item 8A	Controls and Procedures	47
Item 8B	Other Information	47
	PART III	
Item 9	Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act	47
Item 10	Executive compensation	49
Item 11	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	50
Item 12	Certain Relationships and Related Transactions	51
Item 13	Exhibits	52
Item 14	Principal Accountant Fees and Services	53

PART I

Item 1 Description of Business

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

We are actively engaged in the exploration, development, production and acquisition of crude oil and natural gas primarily in eastern Tennessee. In December 2005 we entered into a joint venture agreement with Wind City Oil & Gas, LLC ("Wind City") to form Wind Mill Oil & Gas, LLC (the "Wind Mill Joint Venture"). We own 49.9% of the Wind Mill Joint Venture and Wind City owns 50.1%. We contributed approximately 43,000 acres, which we held under lease in Tennessee, to the Wind Mill Joint Venture for oil and gas exploration, development and exploitation of undeveloped wells. The joint venture will only encompass new drilling projects. We retained our working interest in the developed and producing wells located on such leases. In connection with the development of wells by the Wind Mill Joint Venture, we will also receive revenue for providing labor and equipment.

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.

Competitive Business Conditions

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, 2006.

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 15 full-time employees.

Risk Factors

Any investment in our Common Stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below and the other information included in this Annual Report before purchasing our Common Stock. Although the risks described below are the risks that we believe are material, they are not the only risks relating to our business and our Common Stock. Additional risks and uncertainties, including those that are not yet identified or that we currently believe are immaterial, may also adversely affect our business, financial condition or results of operations. If any of the events described below occur, our business and financial results could be materially and adversely affected. The market price of our Common Stock could decline due to any of these risks, perhaps significantly, and you could lose all or part of your investment.

General Risks Related To Our Business

The termination of the Wind Mill Joint Venture could have a material adverse effect on our financial condition.

On December 23, 2005 we entered into a joint venture agreement with Wind City Oil & Gas, LLC to form Wind Mill Oil & Gas, LLC to explore, drill and develop certain oil and gas properties. As part of the agreement, Wind City Oil & Gas, LLC purchased 2,900,000 common shares for $4,350,000 on December 23, 2005. The stock purchase agreement contains a put whereby Wind City Oil & Gas, LLC can put the stock back to us until September 30, 2006, thereby requiring us to repurchase the 2,900,000 shares. If this were to occur, we would have a significant cashflow shortfall, which would require additional financing arrangements and could impact our ability to continue as a going concern. There is no assurance that such financing could be obtained on favorable terms, or at all. In such event, our financial condition could be adversely affected.

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.

We are implementing a growth strategy which, if successful, will place significant demands on us and subject us to numerous risks.

Growing businesses often have difficulty managing their growth. If our growth strategy is successful, significant demands will be placed on our management, accounting, financial, information and other systems and on our business. We will have to expand our management and continue recruiting and employing experienced executives and key employees capable of providing the necessary support. In addition, to manage our anticipated growth we will need to continue to improve our financial, accounting, information and other systems in order to effectively manage our growth, and in doing so could incur substantial additional expenses that could harm our financial results. We cannot assure you that our management will be able to manage our growth effectively or successfully, or that our financial, accounting, information or other systems will be able to successfully accommodate our external and internal growth. Our failure to meet these challenges could materially impair our business.

We may not be able to compete successfully in acquiring prospective reserves, developing reserves, marketing oil and natural gas, attracting and retaining quality personnel and raising additional capital.

Our ability to acquire additional prospects and to find and develop reserves in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. In addition, there is substantial competition for capital available for investment in the oil and natural gas industry. Our inability to compete successfully in these areas could have a material adverse effect on our business, financial condition or results of operations.

A substantial or extended decline in oil and natural gas prices could reduce our future revenue and earnings.

The price we receive for future oil and natural gas production will heavily influence our revenue, profitability, access to capital and rate of growth. Oil and natural gas are commodities and their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and natural gas have been volatile and currently oil and natural gas prices are significantly above historic levels. These markets will likely continue to be volatile in the future and current record prices for oil and natural gas may decline in the future. The prices we may receive for any future production, and the levels of this production, depend on numerous factors

beyond our control. These factors include the following:

- changes in global supply and demand for oil and natural gas;
- actions by the Organization of Petroleum Exporting countries, or OPEC;

- political conditions, including embargoes, which affect other oil-producing activities;
- levels of global oil and natural gas exploration and production activity;
- levels of global oil and natural gas inventories;
- weather conditions affecting energy consumption;
- technological advances affecting energy consumption; and
- prices and availability of alternative fuels.

Lower oil and natural gas prices may not only decrease our future revenues but also may reduce the amount of oil and natural gas that we can produce economically. A substantial or extended decline in oil or natural gas prices may reduce our earnings, cash flow and working capital.

Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could substantially increase our costs and reduce our profitability.

Oil and natural gas exploration is subject to numerous risks beyond our control, including the risk that drilling will not result in any commercially viable oil or natural gas reserves. Failure to successfully discover oil or natural gas resources in properties in which we have oil and gas leases may materially adversely affect our operations and financial condition.

The total cost of drilling, completing and operating wells will be uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay or cancel drilling, including the following:

- delays imposed by or resulting from compliance with regulatory requirements;
- pressure or irregularities in geological formations;
- shortages of or delays in obtaining equipment and qualified personnel;
- equipment failures or accidents;
- adverse weather conditions;
- reductions in oil and natural gas prices;
- land title problems; and
- limitations in the market for oil and natural gas.

Oil and gas operations involve many physical hazards.

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.

Oil and gas operations are subject to comprehensive regulation which may cause substantial delays or require capital outlays in excess of those anticipated, causing an adverse effect on our Company.

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

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.

The issuance of shares upon exercise of outstanding warrants may cause immediate and substantial dilution of our existing shareholders.

The issuance of shares upon exercise of warrants may result in substantial dilution to the interests of other shareholders since the selling shareholders may sell the full amount issuable on exercise. In addition, such shares

would increase the number of shares in the "public float" and could depress the market price for our Common Stock.

If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board which would limit the ability of broker-dealers to sell our securities and the ability of shareholders to sell their securities in the secondary market.

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

We have never declared or paid cash dividends on our Common Stock. We currently intend to retain future earnings to finance the operation, development and expansion of our business.

We do not anticipate paying cash dividends on our Common Stock in the foreseeable future. Payment of future cash dividends, if any, will be at the discretion of our board of directors and will depend on our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that our board of directors considers relevant. Accordingly, investors will only see a return on their investment if the value of our securities appreciates.

New legislation, including the Sarbanes-Oxley Act of 2002, may make it difficult for us to retain or attract officers and directors.

We may be unable to attract and retain qualified officers, directors and members of board committees required to provide for our effective management as a result of the recent and currently proposed changes in the rules and regulations which govern publicly-held companies. The enactment of the Sarbanes-Oxley Act of 2002 has resulted in a series of rules and regulations by the Securities and Exchange Commission that increase responsibilities and liabilities of directors and executive officers. The perceived increased personal risk associated with these recent changes may deter qualified individuals from accepting these roles.

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

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

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

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

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

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

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

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

our stock.

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

Item 2 Description of Property

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

Oil and Gas Leases

We are an exploration and production company that utilizes seismic data, and other technologies for geophysical exploration and development of oil and gas wells. In addition to our engineering and geological capabilities, we have work-over rigs, dozers, roustabout crews and equipment to set pumping units, tanks and lay flow lines, winch trucks and trailers for traveling support, backhoes, ditchers, fusion machines and welders for pipeline and compression installation, as well as other equipment necessary to take a drilling program from the development stage to completion. The company also sells rigs, oilfield trailers, compressors and other miscellaneous oil and gas production equipment. In addition to this equipment, our Wind Mill Joint Venture has purchased a new Atlas Copco RD20 drilling rig, used RD 20 drilling rig and placed an order for two new SS185 Speed Star rigs to be delivered in December 2006.

Through the Wind Mill Joint Venture, we are presently developing leases referred to as the Koppers North Field and Carden Tract to form 10,500 contiguous acres, the Koppers South Field with 20,700 contiguous acres and the Lindsay Field with 3,400 contiguous acres. The Koppers, Carden and Lindsay Fields are in Campbell County, Tennessee. Additionally, we are developing prospects in Roane County, Tennessee to include 3,500 acres and 5,600 acres in Anderson County, Tennessee. All of these prospects are located in the Appalachian Basin. In addition to our prospects in the Appalachian Basin, drilling has been completed to a total depth of 10,873 on the Hodnett #1 prospect in Brazoria County, Texas. This well is located in the South Rowan Field.. There are no market restrictions in any of the mentioned areas.

In Roane County, the Eula Butler Et Al #1 and the Edwards - Fowler Unit # 1 has been completed . The 2850 foot zone of the Edwards has been completed in the Trenton where a 24 hour open flow test indicates natural gas flowing through a 3/8” choke at 210 psi or about 750 mcfgd. We anticipate that production on this well will begin on August 14, 2006 and that future recovery of natural gas from the Edwards will be in excess of 500 MMcf**.** The Stonesriver section in the Butler has not been that encouraging. We are currently considering treating the same prolific Trenton zone as in the Edwards.

Lease and Royalty Terms

The following leases are held through our Wind Mill Joint Venture. We retained our working interest in the developed and producing wells which were located on such leases as of December 23, 2005. Through the Wind Mill Joint Venture we hold half of the working interest in wells developed and producing subsequent to December 23, 2005.

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 currently own a 50% 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. As of December 2005, there were 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 170,881 barrels of oil from the “Big Lime” Formation through April 30, 2006. The Koppers North and the Cardin tracts are producing gas from five wells in the “Devonian Shale”. An extensive gathering system is in place to transport gas to the Delta Natural Gas sales line. This lease remains in effect for as long as there is production. We have leased and are currently leasing smaller tracts of 50 to 1,000 acres adjacent to or near the Koppers South Fields acreage. We will engage in future development on this acreage through the Wind Mill Joint Venture.

Carden Tract

This lease includes 4,200 acres in which we have a 100% working interest and an 81.25% net royalty interest in wells developed and producing prior to December 23, 2005. This tract joins the Koppers North parcel of 6,300 acres to form a 10,500 acre contiguous block in the north. The Koppers North and the Cardin tracts are producing gas from five wells in the "Devonian Shale". The lease has a three-year term with a five well drilling commitment. As of December 2005, three of these wells were drilled. Through the Wind Mill Joint Venture, the Koppers #6A, 7A and Carden #1A, 2A & 3A were all drilled on the Koppers North and Carden acreage to encompass a contiguous tract of 10,300 acres, located in Campbell County, Tennessee. These wells were drilled in a blanketed fault thickened Devonian Age Shale (Chattanooga Shale) to well depths of approximately 3200'. Production casing has been run and the wells have been stimulated. The wells have been producing since completion, with gas being sold through the Delta Natural Gas system.

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 33% working interest in these wells as well as interest in 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.

We have drilled nine wells with Delta Producers, the Lindsay Field #9, #10, #11, #12, #13, #14, #15, #16 and #17 wells. The #11 well may not be completed. The #17 well is currently being completed and the #16 well will be completed considering the results of #17. The remaining wells are all producing with gas being sold 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 40% working interest in the Lindsay Field lease. The lease also provides for a landowner’s royalty of 12.5%. With Delta Producers, we purchased and built 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, 2006 (Mcf)
9	03/02	104,186
10	01/03	32,709
11	*	*
12	03/02	217,969
13	08/03	47,993
14	08/03	32,466
15	11/03	29,011
16	*	*
17	*	394

* 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. There are several smaller leases that expire at different times. When drilled, as in the Butler and Edwards wells, they will be held by production. We will engage in future development on this prospect through our Wind Mill joint Venture

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. As of April 30, 2006 there were eight producing oil wells and eight producing natural gas wells on these leases that have produced

175,789 barrels of oil and 796,233 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, 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
Discoveries and extensions	-	73,980
[Revision of previous estimates]	3,084	10,695
Production	(5,630)	(60,914)
Balance April 30, 2006	91,279	1,273,327
Proved developed producing reserves at April 30, 2006	58,188	686,580
Proved developed producing reserves at April 30, 2005	60,734	697,916

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, 2006 and 2005 are calculated using weighted average process in effect as of those dates. Those prices were $6.94 and $6.75 respectively, per Mcf of natural gas, and $61.75 and $44.50 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 carry forwards 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, 2006 and 2005 are as follows:

	2006	2005
Future cash flows	$ 14,470,000	$ 12,747,600
Future production costs and taxes	(1,898,000)	(1,939,000)
Future development costs	(568,100)	(745,000)

Future income tax expense		(3,721,209)		(3,119,716)
Future cash flows		8,282,691		6,943,884
Discount at 10% for timing of cash flows		(4,199,324)		(3,463,248)
Discounted future net cash flows from proved reserves	$	4,083,367	$	3,480,636

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, 2006 and 2005.

	April 30,			
		2006		2005
Balance, beginning of year	$	3,480,636	$	23,149,947
Sales, net of production costs and taxes		(721,440)		(784,409)
Changes in prices and production costs		1,484,124		7,490,059
Revisions of quantity estimates		264,640		(39,206,898)
Development costs incurred		176,900		3,995,000
Net changes in income taxes		(601,493)		8,836,937
Balances, end of year	$	4,083,367		3,480,636

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").

Item 3 Legal Proceedings

None.

Item 4 Submission of Matters to a Vote of Security Holders

No proposals were submitted for approval by our shareholders during the fourth quarter ended April 30, 2006.

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.

	Bid Prices ($)	
	High	Low
Quarter Ended:		
July 31, 2005	1.45	1.20
October 31, 2005	1.24	1.10
January 31, 2006	1.30	1.30
April 30, 2006	1.02	1.00

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 385 stockholders of record of our common stock as of April 30, 2006.

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

The table below provides information, as of April 30, 2006, 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	150,000	0.8142	**--**
Total	150,000	0.8142	--

Recent Sales of Unregistered Securities

None.

Share Repurchases

None.

Item 6 Management's Discussion and Analysis or Plan of Operations

Introduction

The following discussion is intended to facilitate an understanding of our business and results of operations and includes forward-looking statements that reflect our plans, estimates and beliefs. It should be read in conjunction with our audited consolidated financial statements and the accompanying notes to the consolidated financial statements included herein. Our actual results could differ materially from those discussed in these forward-looking statements.

Overview

We are actively engaged in the exploration, development, production and acquisition of crude oil and natural gas primarily in eastern Tennessee. In December 2005, we entered into a joint venture agreement with Wind City Oil & Gas, LLC ("Wind City") to form Wind Mill Oil & Gas, LLC (the "Wind Mill Joint Venture"). We own 49.9% of the Wind Mill Joint Venture and Wind City owns 50.1%. We contributed approximately 43,000 acres, which we held under lease in Tennessee, to the Wind Mill Joint Venture for oil and gas exploration, development and exploitation of undeveloped wells. Wind City contributed $10,000,000. The joint venture will only encompass new drilling projects. We retained our working interest in the developed and producing wells located on such leases. In connection with the development of wells by the Wind Mill Joint Venture, we will also receive reimbursement for certain salaried employees and revenue for providing labor and equipment. Including the leases that were contributed to the Wind Mill Joint Venture, we have approximately 50,000 acres under lease. About 90% of such 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. We completed the drilling and fracing of the first five wells on Koppers North and Carden Prospect in Campbell County, Tennessee, which consist of, the Koppers 6A and 7A and the Carden 1A, 2A and 3A. The wells have been drilled to approximately 3,000 feet in depth to fully penetrate a thickened Devonian Shale, with up to 828 feet of potential hydrocarbon entry. Gathering lines have been installed and the wells are producing approximately 200 Mcf per month.

In June 2001, we made a conventional Big Lime gas discovery, on the Lindsay Land Company lease that we jointly own with Delta Producers, Inc. There are currently seven producing wells on the property. Two wells were drilled in June 2005, the Lindsay #16 and #17. These wells fully penetrated the Big Lime and Devonian Shale to depths of approximately 4,700 feet. The Lindsay #17 has been foam fraced in the Devonian Shale the Big Lime. The wells are producing approximately 2,000 Mcf per month. There are at a minimum twenty-three additional drill sites on this 3,400 acre lease which is situated near Caryville, Tennessee. The balance of this lease was assigned to the Wind Mill Joint Venture.

On January 5, 2006, we drilled the Edwards/Fowler #1 gas well to 4,632 feet. This well is the first well to be drilled under the Wind Mill Joint Venture pursuant to which Wind Mill Oil & Gas, LLC will have a 25% net interest in the wells, of which we will own 49.9%. In early June 2006 a twelve hour test produced gas flow at a rate of 1,127 Mcf per day. The well will be attached to the Powell-Clinch gas line and is expected to begin producing at 200 to 250 Mcf per day. An additional well will be drilled on this lease in August 2006.

In May 2006 the Wind Mill Joint Venture drilled the Hodnett #1 Prospect in Brazoria County, Texas to a total depth of 10,873 ft. Production casing has been run to produce natural gas from 9,130 ft and oil from 8,600 ft and 8,800 ft zones. The well is still being tested and its status is not certain at this time.

In July 2006 the Wind Mill Joint Venture drilled three wells on Koppers South. All three wells were deemed to be commercial wells and the Koppers 38B drilled to 3,600 ft has confirmed an open flow test of 720 Mcf of natural gas per day. We are continuing to drill additional wells to prepare for production and to determine the size of the field. To market the gas from the Koppers South field, a six mile, six inch gas pipeline must be constructed to tie into the Powell-Clinch pipeline. Approximately 90% of the right-of-ways for this pipeline have been acquired and construction is expected to be completed by December 2006.

In July 2006 two wells were drilled to 3,800 ft on the Lake City lease in Anderson County, Tennessee. The early tests on these wells indicate that these wells may not be commercial wells.

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, which will be a part of the Wind Mill Joint Venture.

Results of Operations

For the Fiscal Year Ended	Increase / April 30 2006	2005	(Decrease) 2005 to 2006
REVENUES			
Oil and gas revenue	$ 810,607	$ 784,409	$ 26,198
Service and drilling revenue	1,728,165	245,627	1,482,538
Total Revenue	2,538,772	1,030,036	1,508,736

COSTS AND EXPENSES			
Cost of oil and gas revenue	89,167	177,287	(88,120)
Cost of service and drilling revenue	1,523,376	82,730	1,440,646
Selling, general and administrative	1,911,739	341,587	1,570,152
Salaries and wages	161,583	262,453	(100,870)
Plugged and abandoned wells	624,255	624,255	
Depreciation, Depletion and amortization	376,461	366,279	10,182
Total Costs and Expenses	4,686,581	1,230,336	3,456,245
INCOME (LOSS) FROM OPERATIONS	(2,147,809)	(200,300)	(1,947,509)
OTHER INCOME (EXPENSE)			
Interest income	959	875	84
Gain on sale of equipment	157,562	(157,562)	
Interest expense and financing cost	(1,443,084)	(219,561)	(1,223,523)
Total Other Income (Expense)	(1,442,125)	(61,124)	(1,381,001)
NET INCOME (LOSS)	$ (3,589,934)	$ (261,424)	$ (3,328,510)

Revenue

Oil and gas revenue was $810,607 for the year ended April 30, 2006 as compared to $784,409 for the year ended April 30, 2005, an increase of $26,198. This resulted primarily from an increase in the price of oil and gas.

Service and drilling revenue was $1,728,165 for the year ended April 30, 2006 as compared to $245,627 for the year ended April 30, 2005, an increase of $1,482,538. This resulted from an increase in drilling activity with Norwest Energy, NL of Perth, Australia and Golden Triangle Energy of Houston, Texas in the amount of $1,175,000.

Cost and Expense

The cost of oil and gas revenue was $89,167 for the year ended April 30, 2006 as compared to $177,827 for the year ended April 30, 2005, a decrease of $88,660. This decrease resulted from the fact that several oil wells were rehabilitated during the year ended April 30, 2005.

The cost of service and drilling revenue was $1,523,376 for the year ended April 30, 2006 as compared to $82,730 for the year ended April 30, 2005, an increase of $1,440,646. This increase is due to the increase in drilling activities with Norwest Energy, NL of Perth, Australia and Golden Triangle Energy of Houston, Texas.

Selling, general and administrative expense was $1,911,739 for the year ended April 30, 2006 as compared to $341,587 for the year ended April 30, 2005, an increase of $1,570,152. This increase resulted from an increase in stock compensation of approximately $931,000, increased legal and professional fees of approximately $360,000, and a general increase in selling, general and administrative expense.

Salaries and wages expense was $161,583 for the year ended April 30, 2006 as compared to $262,453 for the year ended April 30, 2005, a decrease of $100,870. This decrease resulted from the addition of new employees, less cost being capitalized in lease acquisitions, and the reimbursement by Wind Mill of $276,491 of salaries during the year ended April 30, 2006.

Depreciation, depletion and amortization expense was $376,461 for the year ended April 30, 2006 as compared to $366,279 for the year ended April 30, 2005, an increase of $10,182. This increase resulted from more wells and equipment being placed into service.

There was no gain on the sale of equipment for the year ended April 30, 2006 as compared to a gain of $157,562 for the year ended April 30, 2005, a decrease of $157,562. The gain for the year ended April 30, 2005 resulted from the sale of a drilling rig. There were no sales of equipment during the year ended April 30, 2006.

Interest expense and financing cost was $1,443,084 for the year ended April 30, 2006 as compared to $219,561 for the year ended April 30, 2005, an increase of $1,223,523. This resulted from increased interest cost, loan cost, warrants and penalty warrants associated with loans.

Fiscal Year	Average Net Production Gas / MBTU	Sales Price / MBTU	
2005	75,000	$	6.28
2006	60,914		6.94

Fiscal Year	Average Net Barrels of Oil	Sales Price	
2005	7,500	$	40.48

2006	5,630	61.75

22

	2004	2005	2006
Net Productive Wells	20.20	20.20	22.84
Developed Acreage	1,480	1,480	1,840
Undeveloped Acreage	41,120	41,120	46,920
Net Productive Exploratory Wells	0	0	0
Net Dry Exploratory Wells	0.30	0.30	0.25
Net Productive Developmental Wells	1.420	1.20	2.64
Net Dry Developmental Wells	0	0	0

Liquidity

Cash used by operating activities was $1,921,555 for fiscal 2006, a reduction of $2,076,135 from cash provided by operating activities in fiscal 2005 of $154,580. 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 50,000 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**.**

On December 23, 2005 we entered into the Wind Mill Oil & Gas LLC Agreement (“Wind Mill”) and also sold 2,900,000 shares of common stock to Wind City Oil & Gas, LLC (“Wind City”) for $4,350,000. These funds were used to pay off the $4,150,000 of loans and to provide some working capital. Wind City also contributed $10,000,000 to Wind Mill and we contributed oil and gas leases as part of the Wind Mill agreement. For the year ended April 30, 2006 we received $276,491 of administrative salary reimbursements and revenue of $153,096 for various labor, parts and use of equipment. The continued receipt of salary reimbursements and revenue from Wind Mill is a significant factor in our cash flow as we are completing wells to obtain revenue. The anticipated completion of the pipeline for Koppers South in December 2006, should increase the sale of gas significantly.

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.

Item 7 Financial Statements

INDEX TO FINANCIAL STATEMENTS

Report of Independent Certified Public Accountants	25
Consolidated Balance Sheet	26-27
Consolidated Statements of Operations	28
Consolidated Statements of Stockholders' Equity	29
Consolidated Statements of Cash Flows	30
Notes to the Consolidated Financial Statements	31-46

MILLER PETROLEUM, INC.

CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2006 and 2005

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, 2006 and April 30, 2005 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company has determined that it is not required to have, nor was it engaged to perform, an audit of 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, 2006 and 2005, 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.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations, and $2,900,000 of the Company's common stock is subject to a put option, which the Company does not have the current capability of funding. This raises substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Rodefer Moss & Co, PLLC

Knoxville, Tennessee
August 15, 2006

Miller Petroleum, Inc.
Consolidated Balance Sheets

		April 30, 2006		April 30, 2005
ASSETS				
CURRENT ASSETS				
Cash	$		$	$2,362
Accounts receivable		311,286		182,951
Accounts receivable - related parties		347,060		
Note receivable		43,000		47,000
Inventory		97,388		67,389
Unbilled service and drilling costs		76,944		
Deferred offering costs				88,842
Total Current Assets		875,678		388,544
FIXED ASSETS				
Machinery		880,904		941,601
Vehicles		321,895		333,583
Buildings		315,835		313,335
Office equipment		23,028		72,549
		1,541,662		1,661,068
Less: accumulated depreciation		(782,971)		(939,579)
Net Fixed Assets		758,691		721,489
OIL AND GAS PROPERTIES		1,576,950		2,941,832
(On the basis of successful efforts accounting)				
PIPELINE FACILITIES		193,948		206,298
OTHER ASSETS				
Investment in joint venture at cost		801,319		
Land		496,500		496,500
Investments		500		500
Well equipment and supplies		440,712		431,462
Cash - restricted		83,000		71,000
Total Other Assets		1,822,031		999,462
TOTAL ASSETS	$	5,227,298	$	5,257,625

See notes to consolidated financial statements.

Miller Petroleum, Inc.
Consolidated Balance Sheets

	April 30, 2006	April 30, 2005
LIABILITIES, TEMPORARY EQUITY AND PERMANENT STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank overdraft	$ 27,253	$ -
Accounts payable - trade	305,494	330,620
Accrued expenses	43,189	224,306
Current portion of notes payable	16,636	-
Total Current Liabilities	392,572	554,926
LONG-TERM LIABILITIES		
Notes payable		
Related parties	-	1,673,693
Other	323,898	655,646
Total Long-Term Liabilities	323,898	2,329,339
Total Liabilities	716,470	2,884,265
TEMPORARY EQUITY		
Common stock subject to put rights; 2,900,000 and 0 shares, respectively	4,350,000	-
PERMANENT STOCKHOLDERS' EQUITY		
Common Stock: 500,000,000 shares authorized at $0.0001 par value, 11,466,856 and 9,396,856 shares issued and outstanding	1,146	939
Additional paid-in capital	6,624,683	4,495,498
Unearned compensation	(751,990)	
Accumulated deficit	(5,713,011)	(2,123,077)
Total Stockholders' Equity	160,828	2,373,360
TOTAL LIABILITIES, TEMPORARY EQUITY AND PERMANENT STOCKHOLDERS' EQUITY	$ 5,227,298	$ 5,257,625

See notes to consolidated financial statements.

Miller Petroleum, Inc.
Consolidated Statements of Operations

	For the Year Ended April 30, 2006	For the Year Ended April 30, 2005
REVENUES		
Oil and gas revenue	$ 810,607	$ 784,409
Service and drilling revenue	1,728,165	245,627
Total Revenue	2,538,772	1,030,036
COSTS AND EXPENSES		
Oil and gas cost	89,167	177,287
Service and drilling cost	1,523,376	82,730
Selling, general and administrative	2,073,322	604,040
Impairment loss - plugged and abandoned wells	624,255	
Depreciation, depletion and amortization	376,461	366,279
Total Costs and Expenses	4,686,581	1,230,336
INCOME (LOSS) FROM OPERATIONS	(2,147,809)	(200,300)
OTHER INCOME (EXPENSE)		
Interest income	959	875
Gain on sale of equipment		157,562
Interest expense and financing cost	(1,443,084)	(219,561)
Total Other Expense	(1,442,125)	(61,124)
INCOME TAXES		
NET LOSS	$ (3,589,934)	$ (261,424)
BASIC AND DILUTED LOSS PER SHARE	$ (0.33)	$ (0.03)
BASIC WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	10,812,774	9,030,738

See notes to consolidated financial statements.

MILLER PETROLEUM, INC.
Consolidated Statements of Permanent Stockholders' Equity

	Common Shares	Shares Amount	Additional Paid-in Capital	Unearned Compensation	Accumulated Deficit	Total
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						