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MILLER PETROLEUM INC
Form 10QSB
September 20, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended July 31, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

Commission File No. 33-2249-FW

MILLER PETROLEUM, INC.

(Exact name of small business issuer as specified in its Charter)

TENNESSEE

(State or Other Jurisdiction of
incorporation or organization)

62-1028629

(I.R.S. Employer I.D. No.)

3651 Baker Highway
Huntsville, Tennessee 37756

(Address of principal executive offices)

(423) 663-9457

Issuer's telephone number

N/A

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Not applicable.

APPLICABLE ONLY TO CORPORATE ISSUERS

As of September 14, 2005, there were 9,396,856 shares of Common Stock issued
and outstanding.

Transitional Small Business Issuer Format Yes No X

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The Financial Statements of Miller Petroleum, Inc., a Tennessee corporation (the "Company"), required to be filed with this Quarterly Report were prepared by management. In the opinion of management, the Financial Statements fairly present the financial condition of the Registrant.

MILLER PETROLEUM, INC. Consolidated Balance Sheets

	July 31, 2005 Unaudited	April 30, 2005
ASSETS		
CURRENT ASSETS		
Cash	\$ 989,446	\$ 2,362
Accounts receivable	214,087	182,951
Participant receivable	231,223	-
Current portion of note receivable	42,000	47,000
Inventory	67,389	67,389
Deferred offering costs	88,842	88,842
Prepaid expenses	291,022	-
 Loan Fees	 402,710	 -
	-----	-----
Total Current Assets	2,326,719	388,544
	-----	-----
FIXED ASSETS		
Machinery and equipment	970,842	941,601
Vehicles	333,583	333,583
Buildings	313,335	313,335
Office Equipment	76,490	72,549
Less: accumulated depreciation	(955,212)	(939,579)
	-----	-----
Total Fixed assets	739,038	721,489
	-----	-----
OIL AND GAS PROPERTIES	3,111,013	2,941,832
(On the basis of successful efforts accounting)	-----	-----
 PIPELINE FACILITIES	 203,211	 206,298
 OTHER ASSETS		
Land	496,500	496,500
Investments	500	500
Equipment held for sale	431,462	431,462
Cash - restricted	162,358	71,000
	-----	-----
Total Other Assets	1,090,820	999,462
	-----	-----
TOTAL ASSETS	\$7,470,801	\$5,257,625
	=====	=====

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See notes to consolidated financial statements.

Consolidated Balance Sheets

	July 31, 2005 Unaudited	April 30, 2005
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 179,310	\$ 330,620
Accrued expenses	112,944	224,306
Current portion of notes payable - Other	4,172,290	0
	-----	-----
Total Current Liabilities	4,464,544	554,926
	-----	-----
LONG-TERM LIABILITIES		
Notes payable-Related parties	0	1,673,693
Other	328,312	655,646
	-----	-----
Total Long-Term Liabilities	328,312	2,329,339
	-----	-----
Total Liabilities	4,792,856	2,884,265
	-----	-----
STOCKHOLDERS' EQUITY		
Common Stock: 500,000,000 shares authorized at \$0.0001 par value, 8,753,856 and 9,396,856 shares issued and outstanding		
	939	939
Additional paid-in capital	4,865,890	4,495,498
Retained Earnings	(2,188,884)	(2,123,077)
	-----	-----
Total Stockholders' Equity	2,677,945	2,373,360
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS'S EQUITY	\$7,470,801	\$5,257,625
	=====	=====

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

MILLER PETROLEUM, INC.
Consolidated Statements of Operations
(UNAUDITED)

For the three Months Ended July 31, 2005	For the three Months Ended July 31, 2004
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REVENUES

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Oil and gas revenue	\$ 185,821	\$ 226,944
Service and drilling revenue	1,344,616	31,813
Retail sales	-	27,900
Other revenue	46	649
	-----	-----
Total Revenue	1,530,483	287,306
COSTS AND EXPENSES		
Cost of oil and gas sales	903,007	42,151
Selling, general and administrative	371,469	92,744
Salaries and wages	76,416	33,706
Depreciation, depletion and amortization	74,218	41,056
	-----	-----
Total Costs and Expenses	1,425,110	209,657
	-----	-----
INCOME (LOSS) FROM OPERATIONS	105,373	77,649
	-----	-----
OTHER INCOME (EXPENSE)		
Interest Income	51	59
Gain on sale of equipment	300	6,500
Interest expense	(171,531)	(45,930)
	-----	-----
Total Other Income (Expense)	(171,180)	(39,371)
	-----	-----
NET INCOME (LOSS)	(65,807)	38,278
	=====	=====
NET EARNING (LOSS) PER SHARE	(0.01)	0.01
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	9,396,856	8,753,856
	=====	=====

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

Consolidated Statement of Stockholders' Equity
(UNAUDITED)

	Common Shares	Additional	Retained	Total
	Shares	Paid-in	Earnings	
	Amount	Capital		
Restated balance,				
April 30, 2004	9,396,856	\$ 939	4,495,498	(2,123,077)
	-----	-----	-----	-----
Issuance of warrants as prepayment of financing costs		370,392		370,392

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Net loss for the three months ended July 31, 2005	-	-	-	(65,807)	(65,807)
Restated balance, July 31, 2005	9,396,856	\$939	\$ 4,865,890	(\$2,188,884)	\$2,677,945

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

MILLER PETROLEUM, INC.
Consolidated Statement of Cash Flows
(UNAUDITED)

	For the Three Months Ended July 31, 2005	For the Three Months Ended July 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	\$ (65,807)	\$ 38,278
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation, depletion and amortization	74,218	41,056
Gain on sale of equipment	300	0
Accretion of warrant costs	79,370	0
Changes in Operating Assets and Liabilities:		
Decrease (increase) in accounts receivable	(31,136)	7,685
Decrease (increase) in participant receivable	(213,223)	0
Decrease (increase) in loan fees	(402,710)	0
Decrease (increase) in prepaid expenses	0	25,175
Increase (decrease) in accounts payable	(151,310)	(57,242)
Increase (decrease) in accrued expenses	(111,362)	138
Net Cash Provided (Used) by Operating Activities	(839,660)	55,090
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Equipment	(27,480)	0
Changes in oil and gas properties	(230,681)	(118,125)
Net Cash Provided (Used) by Investing Activities	(258,161)	(118,125)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(1,978,737)	(23,628)
Proceeds from borrowing	4,150,000	31,388
Net proceeds from issuance of common stock	0	96,001
Increase in restricted cash	(91,358)	0
Change in note receivable	5,000	0
Net Cash Provided (Used) by Financing		

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Activities	2,084,905	103,761
	-----	-----
NET INCREASE (DECREASE) IN CASH	987,084	40,726
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,362	73,416
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 989,446	\$ 114,142
	-----	-----
CASH PAID FOR INTEREST	\$ (92,161)	\$ (45,930)
INCOME TAXES	0	0

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

MILLER PETROLEUM, INC. Notes to the Consolidated Financial Statements

- (1) Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the Registrant's April 30, 2005 Annual Report on Form 10KSB. The results of operations for the period ended July 31, 2005 are not necessarily indicative of operating results for the full year.

The consolidated financial statements and other information furnished herein reflect all adjustment which are, in the opinion of management of the Registrant, necessary for a fair presentation of the results of the interim periods covered by this report.

- (2) RELATED PARTY TRANSACTIONS

None

- (3) 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 intangibles assets

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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. 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.

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") "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 FAS 19-1 applies to enterprises that use the successful efforts method of accounting as described in FASB 19. The guidance in FSP FAS 19-1 is not expected to impact the consolidated financial position, result of operations or cash flows.

Item 2. Management's Discussion and Analysis or Plan of Operation.

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 ten 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.

Miller completed the drilling and fracing of the first five wells on the Koppers North and Carden Prospect in Campbell County, Tennessee. These are the Koppers 6A and 7A and the Carden 1A, 2A and 3A. The wells have been

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drilled to approximately 3000 feet in depth, to fully penetrate a thickened Devonian Shale, with up to 828 feet of potential hydrocarbon entry. Average open flows are 130 Mcfd of natural gas each. Gathering lines have been installed to begin immediate gas sales.

Drilling and development on the Koppers North and Carden is in a joint venture with Golden Triangle Energy (GTC), Inc., Houston, Texas and Norwest Energy NL, Perth, Australia. Miller Petroleum, Inc. will serve as operator and retain a twenty percent carried net revenue interest for the first twenty wells and a twenty five percent working interest in the remaining wells drilled by the joint venture.

In June 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. 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 4700 feet. The Lindsay #17 has been foam fraced in the Devonian Shale and will be fraced in the Big Lime when testing is completed in the shale. There are at a minimum twenty three additional drill sites on this 3,400 acres lease which is situated near Caryville, Tennessee.

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

Liquidity and Capital Resources

During the fiscal years ended April 30, 2004, and 2005, our principal sources of liquidity were revenue from the production of oil and gas. Private placements of our common stock have been our principal external sources of liquidity. In physical year 2004 our access to funding depended upon borrowing transactions with related parties and directors. In 2005 with the increase in the volatility of markets for petroleum products our access to sources of funds was enhanced. Accordingly subsequent to our year end, on May 9, 2005 we entered into a credit agreement with Prospect Energy Corporation, Inc. and Petro Capital III, LP. Under the agreement, we received in aggregate of \$4,150,000 in debt financing under two convertible promissory notes with Prospect and Petro, for \$3,150,000 and \$1,000,000, respectively. Proceeds from this borrowing were used to satisfy all the obligations existing at the balance sheet date, as disclosed in this Note. Remaining funds after retirement of all debt was used to institute the drilling program. The note is interest only accruing at 12% and is payable on June 30, 2006. The notes are convertible into common stock at the lesser of \$1.50 or the price at which common stock will be issued to investors in a planned equity offering of the company. Results of Operations

The Company had revenues of \$1,530,483 for the first quarter of fiscal 2005 as compared with \$287,306 in revenues recognized during the first quarter of fiscal 2004.

Oil and gas revenue for the current quarter was \$185,821 as compared with \$226,944 in the first quarter of fiscal 2004. This decrease was due primarily to a decrease in production.

Service and drilling revenue for the first quarter was \$1,344,616 as compared with \$31,813 for the same quarter last year. This increase was due to increased drilling activity.

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During the current quarter, retail sales were \$0 compared with \$27,900 during the first quarter of fiscal 2004. This decrease was due to decreased sales.

The Company's net loss for the current quarter was \$65,807, as compared with a net income of \$38,278 for the same quarter of fiscal 2004. This decrease was due primarily to increased interest expense.

Cost of oil and gas sales for the first quarter of fiscal 2005 was \$903,007 as compared with \$42,151 in the same quarter of fiscal 2004, due primarily to increased drilling activities.

Selling, general and administrative expenses were \$371,469 as compared with \$92,744 in the first quarter of fiscal 2004. This increase was primarily due to increases in legal and professional expenses.

Salaries and wages for the current quarter were \$76,416 as compared with \$33,706 in the first quarter of fiscal 2004.

Depreciation, depletion and amortization for the first quarter of fiscal 2005 was \$74,218 as compared with \$41,056 in the first quarter of 2004. This increase was due to increases in depletion expense.

Item 3. Controls and Procedures

Within the 90-day period prior to the filing of this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. It should be noted that the design of any system of controls is based on in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. In addition, we reviewed our internal controls, and there have been no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation.

PART II - OTHER INFORMATION

Item 6. Exhibits.

(a) Exhibits.

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C.
Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley
Act of 2002

SIGNATURES

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

Date: September 14, 2005

MILLER PETROLEUM, INC.

By:/s/Deloy Miller

Deloy Miller
Chief Executive Officer