

MILLER PETROLEUM INC  
Form 10QSB  
March 27, 2007

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

FORM 10-QSB

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

For the quarterly period ended January 31, 2007  
\_\_\_\_\_

☐ 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. 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

\_\_\_\_\_  
(Former name, former address and former fiscal year if changed from last report.)

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 past 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)  
YES ☐ NO ☒

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As of March 26, 2007, the Registrant had a total of 14,366,856 shares of Common Stock, \$.0001 par value, outstanding.

Transitional Small Business Disclosure Format (check one): YES ☐ NO ☒

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**Miller Petroleum, Inc.**  
**Form 10-QSB**  
**For the Quarter Ended January 31, 2007**  
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**SIGNATURES**

**MILLER PETROLEUM, INC.**  
**Consolidated Balance Sheets**

|                                                 | January 31<br>2007<br>Unaudited | April 30<br>2006    |
|-------------------------------------------------|---------------------------------|---------------------|
| <b>ASSETS</b>                                   |                                 |                     |
| <b>CURRENT ASSETS</b>                           |                                 |                     |
| Cash                                            | \$                              | \$                  |
| Accounts receivable                             | 130,933                         | 311,286             |
| Accounts receivable - related parties           | 116,569                         | 347,060             |
| Current portion of note receivable              | 7,900                           | 43,000              |
| Inventory                                       | 88,311                          | 97,388              |
| Unbilled service and drilling cost              |                                 | 76,944              |
| <b>Total Current Assets</b>                     | <b>343,713</b>                  | <b>875,678</b>      |
| <b>FIXED ASSETS</b>                             |                                 |                     |
| Machinery and equipment                         | 912,592                         | 880,904             |
| Vehicles                                        | 327,677                         | 321,895             |
| Buildings                                       | 315,835                         | 315,835             |
| Office Equipment                                | 30,083                          | 23,028              |
|                                                 | 1,586,187                       | 1,541,662           |
| Less: accumulated depreciation                  | (841,462)                       | (782,971)           |
| <b>Total Fixed assets</b>                       | <b>744,725</b>                  | <b>758,691</b>      |
| <b>OIL AND GAS PROPERTIES</b>                   |                                 |                     |
| (On the basis of successful efforts accounting) | 1,524,550                       | 1,576,950           |
| <b>PIPELINE FACILITIES</b>                      |                                 |                     |
|                                                 | 184,685                         | 193,948             |
| <b>OTHER ASSETS</b>                             |                                 |                     |
| Investments in joint venture at cost            | 801,319                         | 801,319             |
| Land                                            | 496,500                         | 496,500             |
| Investments                                     | 500                             | 500                 |
| Well equipment and supplies                     | 429,362                         | 440,712             |
| Cash - restricted                               | 83,000                          | 83,000              |
| <b>Total Other Assets</b>                       | <b>1,810,681</b>                | <b>1,822,031</b>    |
| <b>TOTAL ASSETS</b>                             | <b>\$ 4,608,354</b>             | <b>\$ 5,227,298</b> |

See notes to consolidated financial statements.



**MILLER PETROLEUM, INC.**  
**Consolidated Balance Sheets**

|                                                                                                                   | January 31<br>2007<br>Unaudited | April 30<br>2006    |
|-------------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>                                                             |                                 |                     |
| <b>CURRENT LIABILITIES</b>                                                                                        |                                 |                     |
| Bank overdraft                                                                                                    | \$ 42,713                       | \$ 27,253           |
| Accounts payable - trade                                                                                          | 161,415                         | 305,494             |
| Accrued expenses                                                                                                  | 75,025                          | 43,189              |
| Current portion of notes payable                                                                                  | 44,790                          | 16,636              |
| <b>Total Current Liabilities</b>                                                                                  | <b>323,943</b>                  | <b>392,572</b>      |
| <b>LONG-TERM LIABILITIES</b>                                                                                      |                                 |                     |
| Mortgage payable                                                                                                  | 306,726                         | 323,898             |
| <b>Total Long-Term Liabilities</b>                                                                                | <b>306,726</b>                  | <b>323,898</b>      |
| <b>Total Liabilities</b>                                                                                          | <b>630,669</b>                  | <b>716,470</b>      |
| <b>TEMPORARY EQUITY</b>                                                                                           |                                 |                     |
| Common stock subject to put rights; 2,900,000 shares                                                              | 4,350,000                       | 4,350,000           |
| <b>PERMANENT STOCKHOLDERS' EQUITY (DEFICIT)</b>                                                                   |                                 |                     |
| Common Stock: 500,000,000 shares authorized<br>at \$0.0001 par value, 11,466,856 shares issued<br>and outstanding | 1,146                           | 1,146               |
| Additional paid-in capital                                                                                        | 6,703,683                       | 6,624,683           |
| Unearned compensation                                                                                             | (467,167)                       | (751,990)           |
| Accumulated deficit                                                                                               | (6,609,977)                     | (5,713,011)         |
| <b>Total Stockholders' Equity (Deficit)</b>                                                                       | <b>(372,315)</b>                | <b>160,828</b>      |
| <b>TOTAL LIABILITIES, TEMPORARY EQUITY<br/>AND PERMANENT STOCKHOLDERS'<br/>EQUITY (DEFICIT)</b>                   | <b>\$ 4,608,354</b>             | <b>\$ 5,227,298</b> |

See notes to consolidated financial statements.

**MILLER PETROLEUM, INC.**  
**Consolidated Statement s of Operations**  
(UNAUDITED)

|                                          | For the Three Months Ended<br>January 31 |                | For the Nine Months Ended<br>January 31 |                |
|------------------------------------------|------------------------------------------|----------------|-----------------------------------------|----------------|
|                                          | 2007                                     | 2006           | 2007                                    | 2006           |
| <b>REVENUES</b>                          |                                          |                |                                         |                |
| Oil and gas revenue                      | \$ 110,162                               | \$ 285,973     | \$ 373,195                              | \$ 627,931     |
| Service and drilling revenue             | 89,887                                   | 138,632        | 740,412                                 | 1,480,804      |
| Total Revenue                            | 200,049                                  | 424,605        | 1,113,607                               | 2,108,735      |
| <b>COSTS AND EXPENSES</b>                |                                          |                |                                         |                |
| Cost of oil and gas revenue              | 12,118                                   | 23,751         | 41,051                                  | 62,793         |
| Cost of service and drilling revenue     | 161,093                                  | 153,114        | 735,562                                 | 1,220,310      |
| Selling, general and administrative      | 321,678                                  | 969,907        | 922,488                                 | 1,515,630      |
| Salaries and wages                       | 151,254                                  | 70,152         | 108,538                                 | 229,144        |
| Depreciation, depletion and amortization | 29,403                                   | 93,890         | 120,153                                 | 255,657        |
| Total Costs and Expense                  | 675,546                                  | 1,310,814      | 1,927,792                               | 3,283,534      |
| LOSS FROM OPERATIONS                     | (475,497)                                | (886,209)      | (814,185)                               | (1,174,799)    |
| <b>OTHER INCOME (EXPENSE)</b>            |                                          |                |                                         |                |
| Interest Income                          | 9,716                                    | 470            | 10,002                                  | 667            |
| Gain on sale of equipment                |                                          |                |                                         |                |
| Interest expense                         | (2,527)                                  | (690,995)      | (13,783)                                | (1,319,751)    |
| Penalty Warrants                         | (40,000)                                 |                | (79,000)                                |                |
| Total Other Income (Expense)             | (32,811)                                 | (690,525)      | (82,781)                                | (1,319,084)    |
| NET INCOME (LOSS)                        | \$ (508,308)                             | \$ (1,576,734) | \$ (896,966)                            | \$ (2,493,883) |
| <b>BASIC &amp; DILUTED</b>               |                                          |                |                                         |                |
| NET INCOME (LOSS) PER SHARE              | \$ (0.04)                                | \$ (0.16)      | \$ (0.06)                               | \$ (0.26)      |
| <b>WEIGHTED AVERAGE NUMBER OF</b>        |                                          |                |                                         |                |
| SHARES OUTSTANDING                       | 14,366,856                               | 10,022,922     | 14,366,856                              | 9,674,601      |

See notes to consolidated financial statements.

**MILLER PETROLEUM, INC**  
**Consolidated Statement of Permanent Stockholders' Equity (Deficit)**  
**(UNAUDITED)**

|                                                                                    | Common<br>Shares | Shares<br>Amount | Additional<br>Paid-in<br>Capital | Unearned<br>Compensation | Accumulated<br>Deficit | Total        |
|------------------------------------------------------------------------------------|------------------|------------------|----------------------------------|--------------------------|------------------------|--------------|
|                                                                                    |                  |                  |                                  |                          | (\$                    |              |
| Balance, April 30, 2005                                                            | 9,396,856        | \$ 939           | \$ 4,495,498                     |                          | 2,123,077)             | \$ 2,373,360 |
| Issuance of warrants as<br>prepayment<br>of financing costs                        |                  |                  | 370,392                          |                          |                        | 370,392      |
| Issuance of warrants for<br>financing<br>cost penalty                              |                  |                  | 66,000                           |                          |                        | 66,000       |
| Issuance of shares as<br>payment for<br>services                                   | 1,650,000        | 165              | 1,682,835                        | (751,990)                |                        | 931,010      |
| Issuance of shares for<br>stock sales<br>commission                                | 400,000          | 40               | 459,960                          |                          |                        | 460,000      |
| Cost of stock sales                                                                |                  |                  | (460,000)                        |                          |                        | (460,000)    |
| Exercise of warrants                                                               | 20,000           | 2                | 9,998                            |                          |                        | 10,000       |
| Net loss for the year<br>ended<br>April 30, 2006                                   |                  |                  |                                  |                          | (3,589,934)            | (3,589,934)  |
| Balance April 30, 2006                                                             | 11,466,856       | 1,146            | 6,624,683                        | (751,990)                | (5,713,011)            | 160,828      |
| To reflect compensation<br>earned for the nine<br>months<br>ended January 31, 2007 |                  |                  |                                  | 284,823                  |                        | 284,823      |
| Issuance of warrants for<br>financing cost penalty                                 |                  |                  | 79,000                           |                          |                        | 79,000       |
| Net loss for the nine<br>months<br>ended January 31, 2007                          |                  |                  |                                  |                          | (896,966)              | (896,966)    |

|                          |               |          |              |             |               |           |
|--------------------------|---------------|----------|--------------|-------------|---------------|-----------|
| Balance January 31, 2007 | 11,466,856 \$ | 1,146 \$ | 6,703,683 \$ | (467,167)\$ | (6,609,977)\$ | (372,315) |
|--------------------------|---------------|----------|--------------|-------------|---------------|-----------|

See notes to consolidated financial statements.

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

|                                                                                           | For the Nine<br>Months Ended<br>January 31, 2007 | For the Nine<br>Months Ended<br>January 31, 2006 |
|-------------------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                              |                                                  |                                                  |
| Net Loss                                                                                  | \$ (896,966)                                     | \$ (2,493,883)                                   |
| Adjustments to Reconcile Net Loss to Net Cash Provided (Used)<br>by Operating Activities: |                                                  |                                                  |
| Depreciation, depletion and amortization                                                  | 120,153                                          | 255,657                                          |
| Gain on sale of equipment                                                                 | 9,852                                            |                                                  |
| Issuance of stock for services                                                            | 284,823                                          | 788,169                                          |
| Warrant costs                                                                             | 79,000                                           | 406,392                                          |
| Changes in Operating Assets and Liabilities:                                              |                                                  |                                                  |
| Accounts receivable                                                                       | 410,844                                          | (300,087)                                        |
| Unbilled service and drilling cost                                                        | 76,944                                           |                                                  |
| Inventory                                                                                 | 9,077                                            |                                                  |
| Loan fees                                                                                 |                                                  |                                                  |
| Bank overdraft                                                                            | 15,460                                           |                                                  |
| Accounts payable                                                                          | (144,079)                                        | (167,670)                                        |
| Accrued expenses                                                                          | 31,836                                           | (180,787)                                        |
| Net Cash Provided (Used) by Operating Activities                                          | (3,056)                                          | (1,692,209)                                      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                              |                                                  |                                                  |
| Purchase of Equipment                                                                     | (122,924)                                        | (79,832)                                         |
| Proceeds from sale of equipment                                                           | 90,000                                           | 17,029                                           |
| Decrease in restricted cash                                                               |                                                  | (12,000)                                         |
| Net additions to oil and gas properties                                                   |                                                  | (335,905)                                        |
| Net Cash Provided (Used) by Investing Activities                                          | (32,924)                                         | (410,708)                                        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                              |                                                  |                                                  |
| Payments on notes payable                                                                 | (21,620)                                         | (6,135,415)                                      |
| Proceeds from borrowing                                                                   | 22,500                                           | 4,150,000                                        |
| Net proceeds from issuance of common stock                                                |                                                  | 4,350,000                                        |
| Change in note receivable                                                                 | 35,100                                           | 4,750                                            |
| Net Cash Provided by Financing Activities                                                 | 35,980                                           | 2,369,335                                        |
| <b>NET INCREASE (DECREASE) IN CASH</b>                                                    | <b>0</b>                                         | <b>266,418</b>                                   |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                                     | <b>0</b>                                         | <b>2,362</b>                                     |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                                           | <b>\$ 0</b>                                      | <b>\$ 268,780</b>                                |
| <b>CASH PAID FOR</b>                                                                      |                                                  |                                                  |
| <b>INTEREST</b>                                                                           | <b>\$ 13,783</b>                                 | <b>\$ 389,835</b>                                |
| <b>INCOME TAXES</b>                                                                       | <b>\$ 0</b>                                      | <b>\$ 0</b>                                      |

See notes to consolidated financial statements.

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**MILLER PETROLEUM, INC.**  
**Notes to the Condensed Consolidated Financial Statements**

(1) Interim Reports / Going Concern

The condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. However, in addition to successive losses for three years, declining revenues, a net loss of \$(896,966) for the nine months ended January 31, 2007, and a stockholders' deficit of \$(372,315) as of January 31, 2007, the Company is involved in litigation with a stockholder (Notes 4 and 7) over the issue of effective and timely notice of a put of the Company's common stock for \$4,350,000. Depending upon the resolution of the controversy, the Company may need total additional financing of approximately \$5,000,000 to effect the repurchase and continue to operate as planned during the twelve month period subsequent to January 31, 2007. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

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, 2006 Annual Report on Form 10-KSB. The results of operations for the period ended January 31, 2007 are not necessarily indicative of operating results for the full year. In the opinion of management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation have been included.

(2) Participant Receivables and Related Party Receivables

Participant receivable and related party receivables consist of receivables contractually due from our various joint venture partners in connection with routine exploration, betterment and maintenance activities. Our collateral for these receivables generally consists of lien rights over the related oil producing properties. Approximately \$111,598 included in the balance sheet among Accounts receivable - related party is due from Wind Mill Oil & Gas, LLC, a related party.

(3) Long-Term Debt, Warrants, Loan Fees And Restricted Cash

Long-term debt consisted of a mortgage loan on our land and building. Interest in the amount of \$13,783 was paid on this note for the nine months ended January 31, 2007.

(4) Stockholders' Equity

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, under certain conditions, Wind City Oil & Gas, LLC could put the stock back to us until September 30, 2006, thereby requiring us to repurchase the 2,900,000 shares. On August 30, 2006, we received notice from Wind City Oil & Gas LLC that they were seeking to exercise the put provision of the stock purchase agreement. We do not believe that such notice was properly given. On November 6, 2006, Wind City filed a summons and complaint against us in an action in the United States District Court for the Southern District of New York seeking to force the exercise of the put provision of the stock purchase agreement. Because of the uncertainty surrounding the eventual disposition of the case, Management has continued to treat this stock as temporary equity in these financial statements.

**MILLER PETROLEUM, INC.**  
**Notes to the Consolidated Financial Statements**

(4) Stockholders' Equity (continued)

Penalty warrants for 360,000 common shares at a price of \$1.15 per share, and a five-year term were issued during the nine months ended January 31, 2007. The warrants were valued at \$79,000.

The Company presents "basic" earnings (loss) per share and, if applicable, "diluted" earnings per share pursuant to the provisions of Statement of Financial Accounting Standards No. 128. The calculation of diluted earnings per share is similar to that of basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, such as those issuable upon the exercise of stock options and warrants, were issued during the period. Since the Company had a net loss for the nine months ended January 31, 2007 and for the year ended April 30, 2006, the assumed effects from the exercise of outstanding options and warrants would have been anti-dilutive, and, therefore only basic earnings per share is presented.

(5) Recent Accounting Pronouncements

In February 2006 the FASB issued SFAS No 155 "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No 133 and 140". This Statement amends FASB Statements No 133, "Accounting for Derivative Instruments and Hedging Activities" and No 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". This Statement revolves around issues addressed in Statement No 133 Implementation Issue No D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets". This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Adoption of SFAS No 155 is not expected to have a material effect on the Company's results of operations, financial condition or cash flows.

In March 2006 the Financial Accounting Standards Board ("FASB") issued SFAS No 156 "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No 140. SFAS No 156 amends SFAS No 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to accounting for separately recognized servicing assets and servicing liabilities. SFAS No 156 is effective for fiscal years that begin after September 15, 2006, with early adoption permitted as of the beginning of an entity's fiscal year. The Company does not have any servicing assets or servicing liabilities and, accordingly, the adoption of SFAS No 156 will not have any effect on the results of operations, financial condition or cash flows.

Financial Accounting Standards Board Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*, was issued in July 2006 and will be effective for the Company on January 1, 2007. FIN 48 defines the threshold for recognizing the benefits of uncertain tax return positions in the financial statements. The Company has not yet determined the impact this Interpretation will have on its financial position, results of operations or cash flows.

**MILLER PETROLEUM, INC.**  
**Notes to the Consolidated Financial Statements**

**(6) Related Party Transactions**

For the three months ended January 31, 2007 we had no revenues or salary reimbursements from Wind Mill. For the nine months ended January 31, 2007 we had revenue of \$506,615 and salary reimbursement of \$353,640.

|                       | 3 Months<br>Ended<br>01-31-07 | 9 Months<br>Ended<br>01-31-07 |
|-----------------------|-------------------------------|-------------------------------|
| Revenue from Windmill | \$ 0                          | \$ 860,255                    |
| Salaries              | QE<br>07-31-06                | (217,364)                     |
|                       | QE<br>10-31-06                | (136,276)                     |
|                       | QE<br>01-31-07                |                               |
| Revenue               | \$ 0                          | \$ 506,615                    |

Included among "Current portion of notes payable" on the balance sheet at January 31, 2007 is an obligation of \$22,500 on a note to Sharon Miller, wife of our Chief Executive Officer, Chairman of the Company's Board of Directors and controlling stockholder. The note is unsecured, bears interest at 11% and is due upon demand.

**(7) Litigation / Going Concern**

***The outcome of our current litigation with Wind City could have a material adverse effect on our financial condition.***

As previously discussed in Notes 1 and 4, Wind City Oil & Gas, LLC has filed suit to force the exercise of the put provision of the stock purchase agreement. Neither we nor our attorneys believe the notice was properly given in accordance with the agreements; however, if the suit is successful and we are required to repurchase the shares, we would have a significant cash flow shortfall, which would require additional financing arrangements. There is no assurance that such financing could be obtained on favorable terms, or at all. In such event, our financial condition could be materially adversely affected and our ability to continue as a going concern could be jeopardized.

## **Item 2 Management's Discussion and Analysis of Financial Condition and Results 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 previously developed and producing wells located on such leases. In connection with the development of new 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.

As part of the Wind Mill Joint Venture, pursuant to a stock purchase agreement, Wind City purchased 2,900,000 shares of our common stock with the right, under certain conditions, to put the stock back to us by September 30, 2006. On August 30, 2006 Wind City notified us of its intent to exercise the put provision of the stock purchase agreement. On November 7, 2006 Wind City filed a lawsuit in the United States District Court for the Southern District of New York (the "Court") to force the exercise of the put provision. We do not believe the put was properly exercised and filed an application to stay the litigation and force arbitration as is required by the agreements. The litigation was stayed by the Court on December 21, 2006 on the condition that the parties promptly proceed with an arbitration for the purpose of determining if a threshold condition to exercise the put was met. Upon the decision reached in arbitration, the stay will be lifted by the Court and, depending upon the decision reached in arbitration, the Court will proceed to resolve the issues raised in the litigation. An initial arbitration administrative conference was held on March 12, 2007.

Our present financial condition precludes us from being able to repurchase the shares under the put if we were to lose the lawsuit. We are exploring various financing opportunities in this regard; however, there can be no assurance that we will be able to obtain financing sufficient to repurchase such shares. In the event that we are unable to obtain financing on acceptable terms sufficient to consummate the repurchase, our business and financial condition could be materially adversely affected and our ability to continue operations as a going concern could be jeopardized.

### **Liquidity and Capital Resources**

Cash used by operating activities was \$3,056 for the nine months ended January 31, 2007, an increase of \$1,689,153 over cash used by operating activities for the nine months ended January 31, 2006 of \$1,692,209. 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.

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 nine months ended January 31, 2007 we received \$353,640 of administrative salary reimbursements and revenue of \$506,615 for various labor, parts and use of equipment. The cessation of operations with Wind Mill has had a major impact on our cash flow.

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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, service new 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.

### Results of Operations

Three Months Ended January 31, 2007 compared to Three Months Ended January 31, 2006

|                                          | For the Three Months Ended<br>January 31 |                | Increase /<br>(Decrease)<br>2006 to 2007 |
|------------------------------------------|------------------------------------------|----------------|------------------------------------------|
|                                          | 2007                                     | 2006           |                                          |
| <b>Revenues</b>                          |                                          |                |                                          |
| Oil and gas revenue                      | \$ 110,162                               | \$ 285,973     | \$ (175,811)                             |
| Service and drilling revenue             | 89,887                                   | 138,632        | (48,745)                                 |
| Total Revenue                            | 200,049                                  | 424,605        | (224,556)                                |
| <b>Costs And Expenses</b>                |                                          |                |                                          |
| Cost of oil and gas revenue              | 12,118                                   | 23,751         | (11,633)                                 |
| Cost of service and drilling revenue     | 161,093                                  | 153,114        | 7,979                                    |
| Selling, general and administrative      | 321,678                                  | 969,907        | (648,229)                                |
| Salaries and wages                       | 151,254                                  | 70,152         | 81,102                                   |
| Depreciation, Depletion and amortization | 29,403                                   | 93,890         | (64,487)                                 |
| Total Costs and Expenses                 | 675,546                                  | 1,310,814      | (635,268)                                |
| Income (Loss) From Operations            | (475,497)                                | (886,209)      | 410,712                                  |
| <b>Other Income (Expense)</b>            |                                          |                |                                          |
| Interest income                          | 9,716                                    | 470            | 9,246                                    |
| Interest expense                         | (2,527)                                  | (690,995)      | 688,468                                  |
| Penalty warrants                         | (40,000)                                 |                | (40,000)                                 |
| Total Other Income (Expense)             | (32,811)                                 | (690,525)      | 657,714                                  |
| Net Income (Loss)                        | \$ (508,308)                             | \$ (1,576,734) | \$ 1,068,426                             |

### Revenue

Oil and gas revenue was \$110,162 for the three months ended January 31, 2007 as compared to \$285,973 for the three months ended January 31, 2006, a decrease of \$175,811. Initially this resulted from changing oil vendors such that oil was not collected for approximately one month, requiring a cessation of production. In our third quarter we continued seeing delays in product pick up causing further stoppages of production. There was also a decline in gas prices during the same period.

Service and drilling revenue was \$89,887 for the three months ended January 31, 2007 as compared to \$138,632 for the three months ended January 31, 2006, a decrease of \$48,745. This resulted from a decrease in all drilling activity.



Cost and Expense

The cost of oil and gas revenue was \$12,118 for the three months ended January 31, 2007 as compared to \$23,751 for the three months ended January 31, 2006, a decrease of \$11,633. Initially this decrease resulted from the cost associated with decreased production due to changing oil vendors and no collection of oil for approximately one month. In our third quarter we continued seeing delays in product pick up causing further stoppages of production.

The cost of service and drilling revenue was \$161,093 for the three months ended January 31, 2007 as compared to \$153,114 for the three months ended January 31, 2006, an increase of \$7,979. This is due to increased expenses related to the wrap up of activities with Wind Mill Oil & Gas, LLC.

Selling, general and administrative expense was \$321,678 for the three months ended January 31, 2007 as compared to \$969,907 for the three months ended January 31, 2006, a decrease of \$648,229. This decrease resulted from a decrease in consulting, legal and professional fees and reimbursements from Wind Mill Oil & Gas, LLC.

Salaries and wages expense was \$151,254 for the three months ended January 31, 2007 as compared to \$70,152 for the three months ended January 31, 2006, an increase of \$81,102. This increase resulted from the cessation of salary reimbursements from Wind Mill Oil & Gas, LLC.

Depreciation, depletion and amortization was \$29,403 for the three months ended January 31, 2007 as compared to \$93,890 for the three months ended January 31, 2006, a decrease of \$64,487. This resulted from management's decision to write off \$624,255 of well cost at April 30, 2006 with a corresponding decrease in depletion expense.

Interest expense was \$2,527 for the three months ended January 31, 2007 as compared to \$690,995 for the three months ended January 31, 2006, a decrease of \$688,468. This resulted from the Wind City Oil & Gas, LLC stock purchase and the payoff of most notes.

Nine Months Ended January 31, 2007 compared to Nine Months Ended January 31, 2006

|                                          | For the Nine Months Ended<br>January 31 |             | Increase /<br>(Decrease) |
|------------------------------------------|-----------------------------------------|-------------|--------------------------|
|                                          | 2007                                    | 2006        | 2006 to 2007             |
| <b>Revenues</b>                          |                                         |             |                          |
| Oil and gas revenue                      | \$ 373,195                              | \$ 627,931  | \$ (254,736)             |
| Service and drilling revenue             | 740,412                                 | 1,480,804   | (740,392)                |
| Total Revenue                            | 1,113,607                               | 2,108,735   | (995,128)                |
| <b>Costs And Expenses</b>                |                                         |             |                          |
| Cost of oil and gas revenue              | 41,051                                  | 62,793      | (21,742)                 |
| Cost of service and drilling revenue     | 735,562                                 | 1,220,310   | (484,748)                |
| Selling, general and administrative      | 922,488                                 | 1,515,630   | (593,142)                |
| Salaries and wages                       | 108,538                                 | 229,144     | (120,606)                |
| Depreciation, Depletion and amortization | 120,153                                 | 255,657     | (135,504)                |
| Total Costs and Expenses                 | 1,927,792                               | 3,283,534   | (1,355,742)              |
| Income (Loss) From Operations            | (814,185)                               | (1,174,799) | 360,614                  |
| <b>Other Income (Expense)</b>            |                                         |             |                          |
| Interest income                          | 10,002                                  | 667         | 9,335                    |
| Gain on sale of equipment                |                                         |             |                          |

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|                              |              |                |              |
|------------------------------|--------------|----------------|--------------|
| Interest expense             | (13,783)     | (1,319,751)    | 1,305,968    |
| Penalty warrants             | (79,000)     |                | (79,000)     |
| Total Other Income (Expense) | (82,781)     | (1,319,084)    | 1,236,303    |
| Net Income (Loss)            | \$ (896,966) | \$ (2,493,883) | \$ 1,596,917 |

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### Revenue

Oil and gas revenue was \$373,195 for the nine months ended January 31, 2007 as compared to \$627,931 for the nine months ended January 31, 2006, a decrease of \$254,736. Initially this resulted from changing oil vendors such that oil was not collected for over one month, requiring a cessation of production. In our third quarter we continued seeing delays in product pick up causing further stoppages of production. . There was also a decline in gas prices during the same period.

Service and drilling revenue was \$740,412 for the nine months ended January 31, 2007 as compared to \$1,480,804 for the nine months ended January 31, 2006, a decrease of \$740,392. This resulted from a decrease in drilling activity, however, through the Wind Mill Joint Venture 14 wells were drilled during the six months ended October 31, 2006

### Cost and Expense

The cost of oil and gas revenue was \$41,051 for the nine months ended January 31, 2007 as compared to \$62,793 for the nine months ended January 31, 2006, a decrease of \$21,742. This decrease resulted from the cost associated with decreased production due to changing oil vendors and no collection of oil for over one month.

The cost of service and drilling revenue was \$735,562 for the nine months ended January 31, 2007 as compared to \$1,220,310 for the nine months ended January 31, 2006, a decrease of \$484,748. This decrease is due to the decrease in drilling activities since most of the drilling was in Wind Mill.

Selling, general and administrative expense was \$922,488 for the nine months ended January 31, 2007 as compared to \$1,515,630 for the nine months ended January 31, 2006, a decrease of \$593,142. A decrease in consulting, legal and professional fees reduced selling, general and administrative expense.

Salaries and wages expense was \$108,538 for the nine months ended January 31, 2007 as compared to \$229,144 for the nine months ended January 31, 2006, a decrease of \$120,606. This decrease resulted from salary reimbursements from Wind Mill Oil & Gas, LLC.

Depreciation, depletion and amortization expense was \$120,153 for the nine months ended January 31, 2007 as compared to \$255,657 for the nine months ended January 31, 2006, a decrease of \$135,504. This resulted from management's decision to write off \$624,255 of well cost at April 30, 2006 with a corresponding decrease in depletion expense.

Interest expense was \$13,783 for the nine months ended January 31, 2007 as compared to \$1,319,751 for the nine months ended January 31, 2006, a decrease of \$1,305,968. This resulted from the Wind City Oil & Gas, LLC stock purchase and the payoff of most notes.

### **Item 3 Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer have conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of a date as of the end of the period covered by the report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy our disclosure obligations under the Securities Exchange Act of 1934.

There was no change in our internal control over financial reporting identified in connection with the evaluation that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



PART II - OTHER INFORMATION

**Item 1 Legal Proceedings**

Reference is made to the Current Report on Form 8-K filed on November 20, 2006 and the Quarterly Report on Form 10-QSB for the quarterly period ended October 31, 2006 in regard to the pending litigation involving Wind City Oil and Gas, LLC. Reference is further made to Item 2 of Part I hereto for a description of material developments with respect to such pending litigation.

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: March 26, 2007

MILLER PETROLEUM, INC.

By: /s/ Deloy Miller

Deloy Miller

Chief Executive Officer, principal executive officer

Date: March 26, 2007

By: /s/ Lyle H. Cooper

Lyle H. Cooper

Chief Financial Officer, principal financial and  
accounting officer