

Edgar Filing: MILLER PETROLEUM INC - Form 10-Q

MILLER PETROLEUM INC  
Form 10-Q  
December 10, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-34732

MILLER PETROLEUM, INC.  
-----

(Exact name of registrant as specified in its charter)

TENNESSEE  
-----

62-1028629  
-----

(State or other jurisdiction of  
incorporation or organization)

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

3651 BAKER HIGHWAY, HUNTSVILLE, TN  
-----

37756  
-----

(Address of principal executive offices)

(Zip Code)

(865) 223-6575  
-----

(Registrant's telephone number, including area code)

N/A  
---

(Former name, former address and former fiscal year,  
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period of time that the registrant was required to submit and post such files)  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller

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reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
 Non-accelerated filer  Smaller reporting company   
 (Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of Class	No. of Shares Outstanding at December 7, 2010
Common Stock	38,281,253

MILLER PETROLEUM, INC.  
 FORM 10-Q  
 OCTOBER 31, 2010  
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### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This report contains forward-looking statements. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause our actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to:

- o the capital intensive nature of oil and gas development and exploration operations and our ability to raise adequate capital to fully develop our operations and assets,

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- o our ability to perform under the terms of the Assignment Oversight Agreement with the Alaska DNR, including meeting the funding commitments of that agreement,
- o fluctuating oil and gas prices and the impact on our results of operations,
- o the impact of the global economic crisis on our business,
- o the impact of natural disasters on our Cook Inlet Basin operations,
- o the imprecise nature of our reserve estimates,
- o our ability to recover proved undeveloped reserves and convert probable and possible reserves to proved reserves,
- o the possibility that present value of future net cash flows will not be the same as the market value,
- o the costs and impact associated federal and state regulations,
- o changes in existing federal and state regulations,
- o our dependence on third party transportation facilities,
- o insufficient insurance coverage,
- o conflicts of interest related to our dealings with MEI,
- o cashless exercise provisions of outstanding warrants,
- o market overhang related to restricted securities and outstanding options, warrants and convertible notes, and
- o adverse impacts on the market price of our common stock from sales by the holders of our common stock and warrants purchased in recent private offerings.

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Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein or in our Annual Report on Form 10-K for the year ended April 30, 2010. Readers are cautioned not to place undue reliance on these forward-looking statements and readers should carefully review this report in its entirety. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. These forward-looking statements speak only as of the date of this report, and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

### OTHER PERTINENT INFORMATION

Unless specifically set forth to the contrary, when used in this report the terms the "Company," "we," "us," "ours," and similar terms refers to Miller Petroleum, Inc., a Tennessee corporation doing business as Miller Energy Resources and our subsidiaries, Miller Rig & Equipment, LLC, Miller Drilling TN, LLC and Miller Energy Services, LLC, East Tennessee Consultants, Inc., East Tennessee Consultants II, LLC, Miller Energy GP, LLC, and Cook Inlet Energy, LLC ("CIE" or "Cook Inlet Energy").

The information which appears on our web site at [www.millerenergyresources.com](http://www.millerenergyresources.com) is not part of this report.

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### PART I - FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS.

##### MILLER PETROLEUM, INC. SUMMARY FINANCIAL INFORMATION (UNAUDITED)

	For the Three Months Ended October 31, 2010 -----	For the Three Months Ended October 31, 2009 -----	For the Six Months Ended October 31, 2010 -----
<b>Revenue</b>			
Oil and gas revenue .....	\$ 6,081,793	\$ 212,225	\$ 10,872,972
Service and drilling revenue .....	593,869	121,179	1,002,937
	-----	-----	-----
Total .....	6,675,662	333,404	11,875,909
<b>Direct Expenses</b>			
Oil and gas .....	3,611,582	4,333	5,915,689
Service and drilling .....	341,408	214,153	837,155
Depletion expense .....	1,660,282	177,182	3,237,130
	-----	-----	-----
Total .....	5,613,272	395,668	9,989,974
	-----	-----	-----
Gross Profit (loss) .....	1,062,390	(62,264)	1,885,935

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Selling, general and administrative ....	3,148,743	1,028,841	5,915,416
Depreciation and amortization .....	615,615	100,240	1,029,439
	-----	-----	-----
	3,764,358	1,129,081	6,944,855
	-----	-----	-----
LOSS FROM OPERATIONS .....	(2,701,967)	(1,191,345)	(5,058,920)
Total other income .....	379,815	996,063	2,993,107
NET LOSS BEFORE INCOME TAXES .....	\$ (2,322,153)	\$ (195,282)	\$ (2,065,812)

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MILLER PETROLEUM, INC.  
SUMMARY FINANCIAL INFORMATION  
(UNAUDITED)  
(continued)

	October 31, 2010 (Unaudited)	July 31, 2010 (Unaudited)	April 30, 2010
	-----	-----	-----
Cash .....	\$ 986,547	\$ 472,543	\$ 2,750,841
Cash, restricted .....	126,697	126,379	126,064
	-----	-----	-----
Total Cash .....	1,113,244	598,922	2,876,905
Oil and Gas Properties .....	378,714,358	378,509,510	376,216,621
Total Assets .....	503,324,002	500,921,122	500,452,155
Total Current Liabilities .....	20,420,719	6,053,165	4,828,333
Total Long-term Liabilities .....	204,848,993	217,331,590	219,883,001
Total Stockholders' Equity .....	278,054,291	277,536,367	275,740,821
Total Gross Producing Oil Wells .....	186	186	188
Total Gross Producing Gas Wells .....	313	323	337
	-----	-----	-----
Total Gross Producing Wells.....	499	509	525
Gross Oil/Gas Lease/License Acreage ....	634,219	634,219	645,683
Net Oil/Gas Lease/License Acreage .....	597,224	597,224	603,546
Total Proved Oil Reserves MBOE .....	10.344 (1)	10.344 (1)	10.344
Total Proved Gas Reserves MBOE .....	0.910 (1)	0.910 (1)	0.910
Total Proved, Probable, Possible Oil Reserves MBOE .....	17.634 (1)	17.634 (1)	17.634
Total Proved Probable, Possible			

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Gas Reserves MBOE ..... 3.321 (1) 3.321 (1) 3.321

(1) Based on Reserve Reports dated April 30, 2010.

(2) Based on Reserve Reports dated April 30, 2009, June 8, 2009, June 18, 2009, October 31, 2009, and December 10, 2009.

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MILLER PETROLEUM, INC.  
CONSOLIDATED BALANCE SHEETS

ASSETS

	October 31, 2010 (Unaudited)	April 30, 2010
	-----	-----
CURRENT ASSETS		
Cash .....	\$ 986,547	\$ 2,750,841
Cash, restricted .....	126,697	126,064
Accounts receivable, net .....	1,676,475	1,444,844
Accounts receivable - related parties .....	49,740	47,446
Tax credits receivable.....	2,167,044	1,107,000
Inventory .....	627,746	521,639
Prepaid expenses .....	1,487,444	275,610
	-----	-----
Total Current Assets .....	7,121,693	6,273,444
Fixed Assets, net.....	114,170,884	114,820,779
OIL AND GAS PROPERTIES, NET		
(On the basis of successful efforts accounting)	378,714,358	376,216,621
Land .....	526,500	526,500
Cash - restricted, long-term .....	2,314,517	2,071,839
Other assets .....	476,050	542,972
	-----	-----
Total Other Assets .....	3,317,067	3,141,311
	-----	-----
TOTAL ASSETS .....	\$503,324,002	\$500,452,155
	=====	=====

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

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MILLER PETROLEUM, INC.  
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

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	October 31, 2010 (Unaudited)	April 30, 2010
	-----	-----
CURRENT LIABILITIES		
Accounts payable - trade .....	\$ 8,604,077	\$ 3,579,112
Accrued expenses .....	399,517	421,938
Current derivative liability .....	11,035,701	720,840
Unearned revenue .....	108,473	106,443
Income taxes payable.....	272,950	-
	-----	-----
Total Current Liabilities .....	20,420,718	4,828,333
LONG-TERM LIABILITIES		
Deferred income taxes payable .....	184,195,928	184,468,878
Asset retirement liability .....	15,662,003	15,662,002
Long term derivative liability .....	2,706,191	16,708,947
Notes payable, related parties, net .....	2,284,871	1,803,775
Notes payable - other, net .....	-	1,239,399
	-----	-----
Total Long-term Liabilities .....	204,848,993	219,883,001
	-----	-----
Total Liabilities .....	225,269,711	224,711,334
STOCKHOLDERS' EQUITY		
Common stock, 500,000,000 shares authorized at \$0.0001 par value, 36,167,439 and 32,224,894 shares issued and outstanding, respectively	3,617	3,223
Additional paid-in capital .....	30,939,449	27,620,605
Retained earnings .....	247,111,225	248,116,993
	-----	-----
Total Stockholders' Equity .....	278,054,291	275,740,821
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY ....	\$503,324,002	\$500,452,155
	=====	=====

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

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MILLER PETROLEUM, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

For the Three Months Ended October 31, 2010	For the Three Months Ended October 31, 2009	For the Six Months Ended October 31, 2010
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	-----	-----	-----
REVENUES			
Oil and gas revenue .....	\$ 6,081,793	\$ 212,225	\$ 10,872,972
Service and drilling revenue .....	593,869	121,179	1,002,937
	-----	-----	-----
Total Revenue .....	6,675,662	333,404	11,875,909
COSTS AND EXPENSES			
Cost of oil and gas revenue .....	3,611,582	4,333	5,915,689
Cost of service and drilling revenue ...	341,408	214,153	837,155
Selling, general and administrative ....	3,148,743	1,028,840	5,915,416
Depreciation, depletion and amortization	2,275,897	277,422	4,266,568
	-----	-----	-----
Total Costs and Expenses .....	9,377,630	1,524,748	16,934,828
	-----	-----	-----
LOSS FROM OPERATIONS .....	(2,701,968)	(1,191,344)	(5,058,919)
OTHER INCOME (EXPENSE)			
Interest income .....	1,174	7,498	5,726
Interest expense .....	(410,422)	(6,258)	(629,758)
Gain on derivative securities.....	781,938	-	3,687,895
Loan fees and costs.....	(375)	(62,742)	(90,755)
Gain (loss) on sale of equipment.....	7,500	-	7,500
Gain on sale of oil and gas properties..	-	-	12,500
Gain on acquisitions .....	-	1,057,564	-
	-----	-----	-----
Total Other Income.....	379,815	996,062	2,993,108
	-----	-----	-----
NET LOSS BEFORE INCOME TAXES .....	(2,322,153)	(195,282)	(2,065,811)
INCOME TAX BENEFIT.....	633,477	39,258	1,060,043
	-----	-----	-----
NET LOSS.....	\$ (1,688,676)	\$ (156,024)	\$ (1,005,768)
	=====	=====	=====
LOSS PER SHARE			
BASIC .....	\$ (0.05)	\$ (0.01)	\$ (0.03)
DILUTED .....	\$ (0.05)	\$ (0.01)	\$ (0.03)
WEIGHTED AVERAGE SHARES OUTSTANDING			
BASIC .....	34,314,794	18,555,604	33,575,258
DILUTED .....	34,314,794	18,555,604	33,575,258

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



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	For the Six Months Ended October 31, 2010	For the Six Months Ended October 31, 2009
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss .....	\$ (1,005,768)	\$ (83,811)
Adjustments to Reconcile Net Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation, depletion and amortization .....	4,266,568	506,584
Loss (gain) on sale of equipment .....	(7,500)	9,755
Gain on sale of oil and gas properties.....	(12,500)	-
Gain on acquisitions .....	-	(1,818,764)
Derivative liability, net .....	(3,687,895)	-
Prepaid offering costs.....	-	213,623
Issuance of equity for services.....	-	25,798
Issuance of equity for compensation .....	1,462,490	-
Issuance of equity for financing costs .....	-	97,499
Changes in Operating Assets and Liabilities:		
Accounts receivable .....	(233,925)	11,677
Tax credits receivable .....	(1,060,043)	-
Inventory .....	(106,107)	(90,891)
Prepaid expense .....	(1,211,834)	(51,627)
Accounts payable .....	5,024,965	213,770
Accrued expenses .....	(22,420)	190,612
Unearned revenue .....	2,030	5,653
Income taxes payable .....	-	(39,259)
Deferred interest .....	-	1,208
Other assets .....	462,684	-
	-----	-----
Net Cash Provided (Used) by Operating Activities .	3,870,742	(808,173)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and improvements .....	(171,029)	(25,892)
Capital expenditures for oil and gas properties...	(5,734,867)	(20,681)
Proceeds from sale of oil and gas properties .....	12,500	25,000
Proceeds from sale of equipment .....	7,500	50,000
	-----	-----
Net Cash Provided (Used) by Investing Activities .	(5,885,896)	28,427
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable .....	-	(12,121)
Deferred financing assets .....	(7,580)	-
Proceeds from borrowing .....	350,000	300,000
Proceeds from sale of stock, net .....	-	336,875
Cash acquired through acquisition .....	-	203,993
Exercise of equity rights .....	151,750	-
Restricted cash .....	(633)	63
Restricted cash non-current .....	(242,678)	(792)
	-----	-----
Net Cash Provided by Financing Activities .....	250,859	828,018
	-----	-----

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NET INCREASE (DECREASE) IN CASH .....	(1,764,295)	48,272
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD .....	2,750,841	46,566
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD .....	\$ 986,547	\$ 94,838
	=====	=====
CASH PAID FOR INTEREST .....	\$ 632,226	\$ 101,879
CASH PAID FOR TAXES .....	\$ -	\$ -
SUPPLEMENTAL DISCLOSURE OF NON CASH FINANCING ITEMS:		
Beneficial conversion right of debt issues.....	\$ -	\$ -
Financing costs from issuance of warrants and stock	\$ -	\$ 97,499
Cash acquired through issuance of stock .....	\$ -	\$ 203,993
Restricted cash acquired through issuance of stock .	\$ -	\$ 196,682
Net assets acquired through issuance of stock .....	\$ -	\$ 1,988,089
Conversion of debt for equity .....	\$ 1,705,000	\$ -

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

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### MILLER PETROLEUM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### (1) ORGANIZATION AND DESCRIPTION OF BUSINESS

These consolidated financial statements include the accounts of Miller Petroleum, Inc. (the "Company") and the accounts of its subsidiaries, Miller Drilling TN, LLC, Miller Energy Services, LLC, East Tennessee Consultants, Inc. and East Tennessee Consultants II, LLC for the comparative periods ended October 31, 2010 and 2009. Miller Petroleum, Inc.'s subsidiaries Miller Energy GP, LLC and Cook Inlet Energy, LLC were included in the consolidation for the period ended October 31, 2010 only, since these subsidiaries started up subsequent to the six months ended October 31, 2009. All inter-company balances have been eliminated in consolidation.

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

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 Company's April 30, 2010 Annual Report on Form 10-K. The results of operations for the period ended October 31, 2010 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) ACCOUNTING POLICIES

#### RECLASSIFICATIONS

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Certain reclassifications have been made to the prior period amounts presented to conform to the current period presentations.

### PRINCIPLES OF CONSOLIDATION AND NON-CONTROLLING INTEREST

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned at October 31, 2010 except for Miller Energy Income, 2009-A, LP("MEI"), which is controlled by the Company. The non-controlling ownership interests in the net income (loss) are reflected within non-controlling interests on the Company's consolidated statements of operations. The non-controlling interests in the assets and liabilities of MEI are reflected as a component of stockholders' equity on the Company's consolidated balance sheets. All material intercompany transactions have been eliminated.

### USE OF ESTIMATES

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities that exist at the date of the Company's consolidated financial statements, as well as the reported amounts of revenue and costs and expenses during the reporting periods. The Company's consolidated financial statements are based on a number of significant estimates, including the revenue and expense accruals, deferred tax assets and liabilities, depletion, depreciation and amortization, asset impairments, the probability of forecasted transactions and the allocation of purchase price to the fair value of assets acquired. Actual results could differ from those estimates.

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The natural gas industry principally conducts its business by processing actual transactions as much as 60 days after the month of delivery. Consequently, the most recent two months' financial results were recorded using estimated volumes and contract market prices. Differences between estimated and actual amounts are recorded in the following month's financial results. Management believes that the operating results presented for the six months ended October 31, 2010 represent actual results in all material respects.

### IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that an asset's estimated future cash flows will not be sufficient to recover its carrying amount, an impairment charge will be recorded to reduce the carrying amount for that asset to its estimated fair value if such carrying amount exceeds the fair value.

The review of the Company's oil and gas properties is done by determining if the historical cost of proved properties less the applicable accumulated depletion, depreciation and amortization and abandonment is less than the estimated expected undiscounted future cash flows. The expected future cash flows are estimated based on the Company's plans to continue to produce and develop proved reserves. Expected future cash flow from the sale of production of reserves is calculated based on estimated future prices. The Company estimates prices based upon current contracts in place, adjusted for basis differentials and market related information including published futures prices. The estimated future level of production is based on assumptions surrounding future prices and costs, field decline rates, market demand and supply and the economic and regulatory climates. If the carrying value exceeds the expected future cash flows, an

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impairment loss is recognized for the difference between the estimated fair market value (as determined by discounted future cash flows) and the carrying value of the assets.

The determination of oil and natural gas reserve estimates is a subjective process, and the accuracy of any reserve estimate depends on the quality of available data and the application of engineering and geological interpretation and judgment. Estimates of economically recoverable reserves and future net cash flows depend on a number of variable factors and assumptions that are difficult to predict and may vary considerably from actual results

Oil and gas properties are reviewed annually for impairment or whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment charges are recorded if conditions indicate the Company will not explore the acreage prior to expiration of the applicable leases or if it is determined that the carrying value of the properties is above their fair value. There were no impairments of oil and gas properties or unproved properties recorded by the Company for the six months ended October 31, 2010 and 2009.

### INVENTORY

Inventory consists primarily of crude oil in tanks and is carried at the lower of cost or market on a "FIFO" basis.

### RECENT ACCOUNTING PRONOUNCEMENTS

All issued, but not yet effective accounting pronouncements are determined to be not applicable or significant by management and once adopted are not expected to have a material impact on the financial position of the Company.

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### (3) PARTICIPANT RECEIVABLES, RELATED PARTY RECEIVABLES AND PAYABLES

Participant 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 at both October 31, 2010 and April 30, 2010.

The Company had an account receivable from a member of the Board of Directors, and his family, at October 31, 2010 and April 30, 2010 in the amounts of \$24,246 and \$29,950, respectively for work performed on oil and gas wells. This board member and his son own partial interests in the oil and gas wells the Company also owns.

The Company had notes payable at October 31, 2010 and April 30, 2010 of \$3,071,444 and \$2,721,444, respectively, to MEI. MEI's general partner is Miller Energy GP, LLC, a 100% owned subsidiary of the Company.

### 4) FIXED ASSETS

Fixed assets consist of the following:

	October 31, 2010	April 30, 2010
	-----	-----
Machinery & Equipment .....	\$ 4,768,658	\$ 4,620,219
Pipelines .....	17,000,000	17,000,000
Oil platform .....	6,000,000	6,000,000

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Vehicles .....	1,418,415	1,402,094
Buildings .....	87,682,810	87,682,810
Office Equipment .....	83,680	77,411
	-----	-----
	116,953,563	116,782,534
Less: accumulated depreciation ...	(2,782,679)	(1,961,755)
	-----	-----
Net Fixed Assets .....	\$ 114,170,884	\$ 114,820,779

The increase in Machinery and Equipment primarily resulted from purchase of a rig. The increase in vehicles resulted from the purchase of two used trucks. The increase in office equipment primarily resulted from the purchase of new accounting software and new computers. Depreciation expense for the six months ended October 31, 2010 and 2009 was \$1,029,439 and \$211,967 respectively.

### (5) DERIVATIVE LIABILITIES

Effective May 1, 2009, the Company adopted the provisions of EITF 07-05 "Determining Whether an Instrument (or Embedded Feature) is Indexed to a Company's Own Stock," which was codified into ASC Topic 815 - Derivatives and Hedging. ASC 815 applies to any freestanding financial instruments or embedded features that have characteristics of a derivative and to any freestanding financial instruments that are potentially settled in an entity's own common stock. The Company has 3,030,529 of warrants with exercise reset provisions, which are considered freestanding derivative instruments. ASC 815 requires these warrants to be recorded as liabilities as they are no longer afforded equity treatment. The derivative liability as of October 31, 2010 and April 30, 2010 of \$13,741,892 and \$17,429,787, respectively is comprised of three transactions, 2,013,814 warrants issued in the current and past years, which were subject to an ongoing dispute but was resolved on December 3, 2010. See Note 12. Also, 716,715 warrants were issued in an equity financing in March 2010 and 300,000 warrants were issued pursuant to a consulting arrangement in March 2010.

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The Company utilized the Black-Scholes pricing model for the 716,715 and 300,000 warrants with the following weighted average assumptions: a risk free rate of 0.51%, expected life terms ranging from 1.9 years to 2.0 years, an expected volatility of 75% and a dividend rate of 0.0%. The fair value of the warrants issued and outstanding at May 1, 2009, attributed to this derivative liability has been determined to be immaterial due to the low stock price in comparison to the exercise price, hence there was no adjustment to make upon adoption of this accounting standard. During the six months ended October 31, 2010, the Company has recorded non-cash gains of \$3,687,895 relating to the change in fair value of these derivative instruments.

### Additional Fair Value Language

The accounting guidance establishes a fair value hierarchy based on whether the market participant assumptions used in determining fair value are obtained from independent sources (observable inputs) or reflect the Company's own assumptions of market participant valuation (unobservable inputs). A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The accounting guidance establishes three levels of inputs that may be used to measure fair value:

- o Level 1--Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;
- o Level 2--Quoted prices for identical assets and liabilities in markets that are inactive; quoted prices for similar assets and liabilities in active

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markets or financial instruments for which significant inputs are observable, either directly or indirectly; or

- o Level 3--Prices or valuations that require inputs that are both unobservable and significant to the fair value measurement.

The Company considers an active market to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis, and views an inactive market as one in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers. Where appropriate the Company's or the counterparty's non-performance risk is considered in determining the fair values of liabilities and assets, respectively.

The fair value of our financial instruments at October 31, 2010 and April 30, 2010 are as follows:

	Fair Value Measurements at Reporting Date Using		
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative securities - April 30, 2010 .....	\$ -	\$ -	\$ 17,429,787
Derivative securities - October 31, 2010 .....	\$ -	\$ -	\$ 13,741,892

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### (6) LONG-TERM DEBT

The Company had the following debt obligations at October 31, 2010 and April 30, 2010:

	October 31, 2010	April 30, 2010
6% convertible secured promissory notes, secured by 35,235 lease acreage, bearing interest at 6.00%, due December 4, 2016 .....	\$ -	\$ 1,705,000
Secured promissory notes, secured by certain equipment, bearing interest at 12%, due November 1, 2013 and December 1, 2013 .....	3,071,444	2,721,444
Total Notes Payable .....	3,071,444	4,426,444
Less current maturities on other notes payable	-	-
Less debt discount .....	(786,573)	(1,383,271)

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Notes Payable - Long-term .....	\$ 2,284,871	\$ 3,043,173
	=====	=====

In December 2009, the Company raised \$2,855,000 as 6% convertible secured promissory notes. These convertible secured notes bear interest at 6% per annum and mature in December 2016. The convertible secured notes, including any accrued and unpaid interest are convertible into common stock at \$.55 per share, at the option of the holder. The conversion price was below market at the time of this debt raise, as a result the fair value of beneficial conversion feature was computed to be \$809,263. This beneficial conversion feature was recorded as a debt discount and is being amortized over the term of the debt. The amortization expense recorded for the quarter ended July 31, 2010 was \$38,710. As of the October 31, 2010, all of the notes have been converted into shares of our common stock.

On November 1, 2009, December 15, 2009 and May 15, 2010 MEI, a controlled entity of the Company, extended loans, as amended, of \$2,365,174, \$356,270, and \$350,000 respectively, totaling \$3,071,444 to the Company. These loans bear interest at a rate of 12% per year and are due in four years. These loans require monthly payments of interest only, with the principal due at the maturity date. The Company provided oil and gas drilling equipment as collateral for the loan. The Company issued 1,329,250 shares of common stock and 1,329,350 warrants to purchase common stock at an exercise price of a \$1.00. These common shares and warrants issued had a fair value of \$1,048,765, which have been recorded as a debt discount to be amortized over 48 months the term of such debt. Amortization expense of the debt discount costs for the six months ended October 31, 2010 was \$131,096.

ASC 410-20 "Accounting for Asset Retirement Obligations" addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement requires companies to record the present value of obligations associated with the retirement of tangible long-lived assets in the period in which it is incurred. The liability is capitalized as part of the estimated costs to capitalize a well and site remediation once a well is abandoned. Over time, accretion of the liability is recognized as an operating expense and the capitalized cost is depreciated over the expected useful life of the related asset. The changes in the Company's liability for the periods ended April 30, 2010 and October 31, 2010 are as follows:

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Asset retirement obligation as of April 30, 2010 .....	\$ 15,662,003	
Changes for 2011 .....	-	-----
Asset retirement obligation as of October 31, 2010 ....	\$ 15,662,003	

### (7) STOCKHOLDERS' EQUITY

During the six months ended October 31, 2010, we issued the following securities: 3,942,545 shares, which included four warrant holders who exercised warrants for 177,600 shares in a cashless exercise that netted the holders 142,286 shares and five other warrant holders exercised warrants for 151,750 shares for an exercise price of \$1.00. In addition, fifteen note holders converted \$1,705,000 of their 6% secured convertible notes at a conversion rate of \$0.55 and we issued 3,099,999 shares. We also issued 30,000 shares to an advisor to the Board for services rendered. And on October 29, 2010, we entered into a settlement agreement with Petro Capital III, LP and Petro Capital Advisors, LLC and resolved litigation that had been pending in federal court in Texas. The settlement agreement resulted in our issuing a total of 518,510 shares of our common stock to Petro Capital III, LP and Petro Capital Advisors,

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LLC. The Company also issued 3,100,000 employee and director options between February 18, 2010 and July 31, 2010 and 100,000 options to an advisor to the Board on October 1, 2010 which created compensation expense of \$1,296,590 for the six months ended October 31, 2010.

The Company presents "basic" earnings (loss) per share and, if applicable, "diluted" earnings per share pursuant to the accounting guidance issued by the FASB. 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.

As of October 31, 2010 the exercise price of warrants and options below market value were \$14,729,429, and therefore there are dilutive effects of the common stock equivalents for the outstanding vested stock options and warrants for the six months ended October 31, 2010.

### (8) STOCK OPTIONS AND WARRANTS

We record share-based payments at fair value and record compensation expense for all share-based awards granted, modified, repurchased or cancelled after the effective date, in accord with FASB guidance for "Share-Based Payments". We record compensation expense for outstanding awards for which the requisite service had not been rendered as of the effective date over the remaining service period.

We estimated the fair value of options and warrants granted during the six months ended October 31, 2010 and 2009 on the date of grant, using the Black-Scholes pricing model with the following assumptions:

	2010	2009
	-----	-----
Weighted average of expected risk-free interest rates (Approximate 3 year Treasury Bill rate) ....	1.44%	1.50%
Expected years from vest date to exercise date .....	3.0	2.5
Expected stock volatility .....	50-79%	371-394%
Expected dividend yield .....	0%	0%

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The Company has adopted the FASB guidance, "Share Based Payments" FASB ASC 718-10. This guidance requires companies to expense the value of employee stock options and similar awards and applies to all outstanding and vested stock-based awards. In computing the impact, the fair value of each option is estimated on the date of grant based on the Black-Scholes options-pricing model utilizing certain assumptions for a risk free interest rate; volatility; and expected remaining lives of the awards. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment.

As a result, if factors change and the Company uses different assumptions, the Company's stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company's forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the amount of vested options as a percentage of total options outstanding.

If the Company's actual forfeiture rate is materially different from its



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estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what we have recorded in the current period.

The Company recorded \$1,462,490 and \$515,891 of compensation expense, net of related tax effects, relative to stock options and warrants for the six months ended October 31, 2010 and 2009, respectively in accordance with the FASB guidance. Net loss per share basic for this expense is \$0.04 and \$0.02 and net loss per share diluted for this expense is \$0.04 and \$0.02.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of our common stock for those awards that have an exercise price currently below the closing price. During the six months ended October 31, 2010 and 2009, the aggregate intrinsic value of stock options and warrants outstanding was \$3,438,991 and \$0, respectively.

A summary of the stock options and warrants as of October 31, 2010 and 2009 and changes during the periods is presented below:

	Six months ended October 31, 2010		Six months ended October 31, 2009	
	Number of Options and Warrants	Weighted Average Exercise Price	Number of Options and Warrants	Weighted Average Exercise Price
Balance at April 30	12,306,305	\$ 1.50	4,090,000	\$ 0.88
Granted .....	425,000	5.22	737,500	1.05
Exercised .....	750,986	0.44	-	-
Expired .....	-	-	50,000	0.81
Cancelled .....	135,314	4.78	-	-
Balance at October 31 .....	11,845,005	2.58	4,777,500	0.90
Options exercisable at October 31 .....	6,370,005	\$ 1.61	4,590,000	\$ 0.93
	=====	=====	=====	=====

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The following table summarizes information concerning stock options and warrants outstanding and exercisable at October 31, 2010:

Options and Warrants Outstanding			Options and Warrants Exercisable		
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.01 to 0.69	2,080,000	2.6	\$ 0.31	1,955,000	\$ 0.31
1.00 to 1.82	4,247,950	3.1	1.07	2,747,950	1.11
2.00 to 2.52	1,750,000	3.6	2.13	750,000	2.30
4.98 to 6.94	3,767,055	8.4	5.73	917,055	5.31
	11,845,005	4.8	\$ 2.58	6,370,005	\$ 1.61

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### (9) INCOME TAX

The Company operates several oil and gas wells in Alaska and has leased properties for other oil and gas exploration purposes. Alaska has investment tax incentives whereby through June 30, 2010, up to 20% of certain qualified expenditures are reimbursable via a tax credit which can be sold to other oil and gas companies at a discount to obtain an immediate realization of such benefits or such tax credits could be utilized by the Company to offset taxes due or obtain a refund based on certain future reinvestment criteria. Effective July 1, 2010, the state of Alaska has increased the tax incentive rate from 20% to 40% and relaxed the criteria for a refund requirement to be obtained from the state of Alaska. The Company has recorded a total of \$2,167,043 in Tax credits receivable for an estimate of an investment tax credit incentive refund due from the state of Alaska, as of October 31, 2010, of which \$ 1,060,043 was recorded during the six months ended October 31, 2010.

### (10) COMMITMENTS

Cook Inlet Energy was one of nine successful bidders in the State of Alaska's Division of Oil & Gas Cook Inlet Area wide 2010 Competitive Oil and Gas Lease Sale. Cook Inlet Energy will acquire seven tracts which cover an estimated 27,520 acres upon payment of the balance of the purchase price, which is \$727,033. This amount will be due once the title work is complete which we presently anticipate to be in January 2011. All of these tracts complete acreage positions covering prospects acquired in Cook Inlet Energy's purchase of a portfolio of Pacific Energy Alaska assets. We have not included this acreage in our calculation of gross or net lease acres in this report.

### (11) LITIGATION

CNX Gas Company, LLC commenced litigation on June 11, 2008 in the Chancery Court of Campbell County, State of Tennessee in a case style CNX Gas Company, LLC vs. Miller Petroleum Inc., Civil Action No. 08-071, to enjoin us from assigning or conveying certain leases described in the Letter of Intent signed by CNX and our company on May 30, 2008, to compel us to specifically perform the assignments as described in the Letter of Intent, and for damages. A Notice of Lien Lis Pendens was issued June 11, 2008. We moved for entry of summary judgment dismissing the claims asserted against us by CNX and on January 30, 2009 the court found that CNX's claims had no merit. The court granted our motion and dismissed all claims asserted by CNX in that action. CNX has appealed the ruling, and briefs have been submitted to the Court of Appeals of Tennessee. Oral arguments were held on May 18, 2010, and an opinion from the Court of Appeals is expected any day now.

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On May 20, 2009 Gunsight Holdings, LLC, a Florida limited liability company, filed a complaint in the United States District Court for the Eastern District of Tennessee, Northern Division, against us styled Gunsight Holdings, LLC, Plaintiff, v Miller Petroleum, Inc. and Ky-Tenn Oil, Inc., Defendants, Case No. 3-09-CV-221. The litigation surrounds certain rights related to approximately 6,800 acres in Scott County, Tennessee which KTO purportedly acquired under a lease assignment from an unrelated party in August 2004. In September 2008, KTO assigned us 75% of its interest in the subject lease and the working interest in all the wells on the leased land, retaining a 25% interest in the wells consisting of landowner's royalty and overriding royalty. On June 8, 2009 we acquired certain assets from KTO including KTO's undivided interest in approximately 170 oil and gas wells in Morgan, Scott and Fentress counties in Tennessee, together with all property, fixtures and improvements, leasehold interest and contract rights related to these wells and undivided interest in approximately 35,325 acres of oil and gas leases in Scott and Morgan counties,

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Tennessee. The lease which is the subject of the litigation was included in the assets purchased by us from KTO. The plaintiff is alleging that our company and KTO have failed or refused to pay royalties due to the plaintiff's predecessors and have breached the implied duty of further exploration by failing to drill required wells, failing to reasonably develop or explore the property, failing to maintain an active interest in further development of the property and otherwise failing to act as a prudent operator of the property thereby causing damages to the plaintiff exceeding \$75,000. The plaintiff is seeking a declaratory judgment of its allegations, removal of our company and KTO from the property, a full accounting of activities related to the property and all monies received from those activities, damages and costs of action. We have filed an answer denying the various claims and asserting affirmative defenses including that there has been continuous production from the subject lease. We are currently in discovery.

On October 8, 2009 we filed an action styled Miller Petroleum, Inc. v. Maynard, Civil Action No. 9992 in the Chancery Court for Scott County, Tennessee, seeking a declaratory judgment that there has been continuing commercial production of oil, and oil and gas lease owned by us is still in full force and effect. The defendant filed an Answer and Counterclaim, seeking in the Counterclaim a declaration that the oil and gas lease has expired. Although no compensatory monetary damages have been sought against us, the Counterclaim does seek attorney fees, expenses and costs. On October 27, 2010, a temporary injunction was granted allowing us access to the property at issue in this case. We are presently conducting discovery.

We are also party to various routine legal proceedings arising in the ordinary course of our business. Management believes that none of these actions, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

### (12) SUBSEQUENT EVENTS

On November 17, 2010, we issued 100,000 shares of stock in a transaction in which we acquired a jet from three sellers, one of which is a consultant to the company. Another one of the sellers is affiliated with that consultant. The third seller is an unrelated party. The Board of Directors made a good faith valuation of the jet at approximately \$550,000, based on the value of comparable jets. We plan on leasing the jet when it is not in use by us.

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On November 19, 2010, the Regulatory Commission of Alaska accepted a settlement agreement between CIE and the Cook Inlet Pipe Line Company ("CIPL"). CIPL, a subsidiary of Chevron Pipeline Co., operates a 42-mile pipeline on the west side of Cook Inlet, and is the sole means by which CIE can export its oil production. This settlement reduced transportation costs for all CIE production by \$6.57 per barrel to a rate of \$8.00 per barrel for the remainder of 2010. The actual rate to be paid by CIE to CIPL for 2010 shall be determined in accordance with the annual true-up procedure detailed below. The actual rate to be paid for 2010 may be more or less than \$8.00 per barrel after the true-up. The settlement also lays out a methodology for determining CIE's future pipeline transportation rates. The rates to be paid by CIE to CIPL during calendar years 2011 through 2014 shall be determined by dividing the agreed annual CIPL revenue requirement of \$17.28 million for each year of the term of the Settlement Agreement by the forecasted total annual CIPL throughput. CIE has committed to pay for transportation of a minimum of 260,063 barrels of production in 2010 and 346,750 barrels in each of the years 2011 through 2014. Each February, a true-up adjustment for the previous year will be made by dividing the \$17.28 million revenue requirement of the pipeline by the actual number of barrels put through the line by all shippers to determine the rate due to CIPL. After the rate due

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to CIPL is determined in accordance with the true-up terms, any overpayment by CIE up to \$250,000 will be credited against future shipments, and any amount above \$250,000 shall be repaid to CIE in cash. In the event that CIE had underpaid CIPL for the previous year, payment of that shortfall would be made after the annual true up.

On December 3, 2010, we entered into a settlement agreement with Prospect Capital Corporation ("Prospect") to resolve all potential claims arising from the loan transaction in May 2004 in which Prospect acted as one of the lenders. This dispute was rooted in the same facts and circumstances as the previously settled lawsuit with Petro Capital III, LP and Petro Capital Advisors, LLC (collectively "Petro"). The terms of the settlement agreement are similar to the terms upon which Petro settled their claims. We issued Prospect a total of 2,013,814 shares of our common stock, in exchange for waivers of their claims. The shares are subject to certain volume limitations for future sales. The current derivative liability of \$11,035,701 has been satisfied with the issuance of the aforementioned shares.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

We are an independent exploration and production company that utilizes seismic data, and other technologies for geophysical exploration and development of oil and gas wells in the Appalachian region of eastern Tennessee and the Cook Inlet Basin in south central Alaska. In addition to our engineering and geological capabilities, we provide land drilling services on a contract basis to customers primarily engaged in natural gas exploration and production.

Currently, we are continuing to develop the acreage we acquired during fiscal 2009 and 2010.

These acquisitions have grown our acreage position to approximately 634,219 acres of gross oil and gas leases and exploration license rights (597,224 net acres), which includes 471,474 acres under the Susitna Basin Exploration License.

During the six months ended October 31, 2010, we began reworking two of our Alaska wells and capitalized approximately \$3.9 million of costs associated with those efforts. In addition, we plan to drill five new wells in the next six to nine months. However, this is dependent upon the availability of additional capital.

Our management is focusing the majority of its efforts on growing our company. In addition to raising capital we are also continuing to focus our short-term efforts on three distinct areas, including the following:

- o continuing to increase our overall oil and gas production through maintenance and repairs of nonperforming or underperforming wells,
- o organically growing production through drilling for our own benefit on existing leases and under license rights, leveraging our 100,000 plus well log database and over 600,000 acres which are either under lease or part of the Susitna Basin Exploration License, with a view towards retaining the majority of working interest in the new wells, and
- o expanding our contract drilling and service capabilities and revenues, including drilling and service contracts with third parties.

Our ability, however, to implement one or more of these goals in a timely manner

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is dependent upon the availability of additional capital. To expand our operations as set forth above, we will need up to \$15 million to \$35 million of additional capital to develop our Alaska reserves. In addition, we will also need to raise substantial additional capital to meet our funding commitments under the Assignment Oversight Agreement with the Alaska Department of Natural Resources ("Alaska DNR").

We are seeking to leverage our existing assets as well as raise additional capital through the sale of equity and/or debt securities. We do not have any firm commitments for the additional capital we need to fully fund our operations and there are no assurances the capital will be available to us upon terms acceptable to us, if at all. While we are actively seeking to secure the additional capital, terms of the Securities Purchase Agreement for the March 2010 private offering contains restrictive covenants which may adversely impact our ability to raise additional capital until August 2011. If we are not able to raise the capital as required, we will be unable to fully implement our expanded business model, and the State of Alaska could terminate the leases which comprise substantially all of our Cook Inlet Basin assets. We may also be required to reduce overhead until further capital is obtained.

During the first six months of fiscal 2011, we have been the successful bidder on additional acreage in Alaska that complements our current acreage, strategically assigned other leases to another producer, settled one of our significant lawsuits, and secured the extension of the Susitna Basin Exploration License for an additional three years.

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Cook Inlet Energy was one of nine successful bidders in the State of Alaska's Division of Oil & Gas Cook Inlet Area wide 2010 Competitive Oil and Gas Lease Sale. Cook Inlet Energy will acquire seven tracts which cover an estimated 27,520 acres upon payment of the balance of the purchase price, which is \$727,033. This amount will be due once the title work is complete which we presently anticipate to be in January 2011. All of these tracts complete acreage positions covering prospects acquired in Cook Inlet Energy's purchase of a portfolio of Pacific Energy Alaska assets. We have not included this acreage in our calculation of gross or net lease acres in this report.

Cook Inlet Energy assigned four leases with a total gross acreage of 8,828.5 acres to Buccaneer Alaska for a total consideration of \$12,500.00, as of June 1, 2010. We retained the overriding royalty interests in each lease including 2% in the ADL-391108 and ADL-17595-2 leases and 4% in the ADL-390379 and ADL-390370 leases. If Buccaneer Alaska fails to drill at least one well on the leased acreage by 2013, we will be entitled to a payment of \$303,613, and may choose to cause Buccaneer Alaska to assign any of the leases to us that remain active.

On October 29, 2010, we entered into a settlement agreement with Petro Capital III, LP and Petro Capital Advisors, LLC and resolved litigation that had been pending in federal court in Texas. The settlement agreement resulted in our issuing a total of 518,510 shares of our common stock to Petro Capital III, LP and Petro Capital Advisors, LLC. Besides the attorney fee savings and certainty that comes from the settlement and dismissal of the lawsuit, as a result of the settlement, we will be able to eliminate a substantial amount of the derivative liability that we have currently booked as a result of the anti-dilution clause in the warrants at issue in this matter. These warrants, along with the similar warrants granted to Prospect Capital Corporation (which settled similar claims against us on December 3, 2010), accounted for 80% of our derivative liability, which has been eliminated and will no longer be booked going forward.

On October 29, 2010, Cook Inlet Energy secured a three year extension of its Susitna Basin Exploration License, which is comprised of 471,474 acres. The

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terms of the extension require us to spend an aggregate of \$750,000 over the next three years under a new work commitment. This extension will allow us to identify the most valuable acres covered by the license and convert only the most promising prospects to leases at the expiration of the license. Had we failed in securing this extension, we would have had to identify acreage to convert to leases and acreage to relinquish upon the license's expiration at the end of October, 2010.

### LEASES AND LICENSES

Our current leased and licensed acreage position is 634,219 acres (gross) and 597,224 acres (net). We also hold a total 25,964 acres in ORRIs in Alaska. We do not include the ORRI acreage in our calculation of leased and licensed acreage. The terms of our leases and licenses have a net revenue interest ranging from 0.1% to 100.0% and run from three to five years. We are presently reviewing these leases and licenses to determine the capital requirements and timing for drilling additional wells. To expand our operations by drilling on our leases, we will require additional capital. We retained royalty interests of 2% and 4% in the acres assigned to Buccaneer, and will stand to share in any profit created by wells drilled on this acreage. As a part of our fiscal 2008 sale to Atlas Energy, we retained a 5% royalty interest on a 1,930 acre tract that we expect to be the subject of Atlas Energy drilling. When wells are developed on this acreage, we stand to share in any profit they create. Additionally, we retained the right to participate in up to ten wells with a 25% working interest without promote.

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### RESULTS OF OPERATIONS

#### REVENUES

The following table shows the components of our revenues for the three and six months ended October 31, 2010 and 2009, together with their percentages of total revenue in 2010 and percentage change on a period-over-period basis.

	For the Three Months Ended				
	October 31, 2010	% of Revenue	October 31, 2009	% of Revenue	% Change
<b>REVENUES</b>					
Oil and gas revenue .....	\$ 6,081,793	91%	\$ 212,225	64%	2,766%
Service and drilling revenue .....	593,869	9%	121,179	36%	390%
Total Revenue .....	\$ 6,675,662	100%	\$ 333,404	100%	1,902%

	For the Six Months Ended				
	October 31, 2010	% of Revenue	October 31, 2009	% of Revenue	% Change
<b>REVENUES</b>					
Oil and gas revenue .....	\$10,872,972	92%	\$ 616,617	72%	1,663%
Service and drilling revenue .....	1,002,937	8%	244,407	28%	310%

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Total Revenue .....	\$11,875,909	100%	\$ 861,024	100%	1,279%

Oil and gas revenue represents revenues generated from the sale of oil and natural gas produced from the wells in which we have a partial ownership interest. Oil and gas revenue is recognized as income as production is extracted and sold.

The significant increases in oil and gas revenues for the three and six months ended October 31, 2010 over the three and six months ended October 31, 2009, were due to the addition of the Alaskan oil well production during December 2009 which accounted for revenues of approximately \$5,848,997 and approximately \$10,505,585, respectively, during the second quarter and first half of fiscal 2011.

At October 31, 2010 oil was priced at \$81.45 per barrel versus \$77.04 at October 31, 2009 and at October 31, 2010 natural gas was \$4.04 per Mcf as compared to \$5.05 per Mcf at October 31, 2009. In addition, we had 186 producing oil wells and 313 producing gas wells on October 31, 2010 compared to 194 producing oil wells and 263 producing gas wells on October 31, 2009. For the three months ended October 31, 2010 we produced 73,008 barrels of oil and 94,335 Mcf of natural gas as compared to 5,931 barrels of oil and 23,527 Mcf of natural gas during the three months ended October 31, 2009. For the six months ended October 31, 2010 we produced 147,388 barrels of oil and 145,024 Mcf of natural gas as compared to 5,931 barrels of oil and 42,658 Mcf of natural gas during the six months ended October 31, 2009. These increases were primarily due to the addition of Alaska productions.

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Service and drilling revenue represents revenues generated from drilling, maintenance and repair of third party wells. Service and drilling income is recognized at the time it is both earned and we have a contractual right to receive the revenue. Our service and drilling revenue increased 390% for the three months ended October 31, 2010 as compared to the three months ended October 31, 2009 and 310% for the six months ended October 31, 2010 as compared to the six months ended October 31, 2009. During the six months ended October 31, 2010 we entered into a contract with National Park Service for plugging non-company related abandoned wells located in the Big South Fork area in Tennessee and Kentucky and recorded revenue of \$295,972 for the three months ended October 31, 2010 and \$429,417 for the six months ended October 31, 2010. In addition, for the six months ended October 31, 2010, we recorded a full six month's worth of service revenue for our subsidiary, East Tennessee Consultants, Inc. which resulted in revenue of \$362,607 as compared to \$163,937 recorded during the six months ended October 31, 2009. East Tennessee Consultants, Inc. was acquired on June 18, 2009.

The plugging contract will continue throughout the end of our current fiscal year and we expect to record similar amounts for the next three and six month periods.

### DIRECT EXPENSES

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The following tables show the components of our direct expenses for the three and six months ended October 31, 2010 and 2009. Percentages listed in the table reflect margins for each component of direct expenses and percentages of total revenue for each component of other expenses.

For the Three Months Ended

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	October 31, 2010	Margin	October 31, 2009	Margin
DIRECT EXPENSES				
Oil and gas .....	\$ 3,611,582	41 %	\$ 4,333	98 %
Service and drilling .....	341,408	43 %	214,153	(77) %
Depletion expense .....	1,660,282	n/a	177,183	n/a
Total direct expenses .....	\$ 5,613,272	16 %	\$ 395,669	(19) %

For the Six Months Ended

	October 31, 2010	Margin	October 31, 2009	Margin
DIRECT EXPENSES				
Oil and gas .....	\$ 5,915,689	46 %	\$ 28,377	95 %
Service and drilling .....	837,155	17 %	458,653	(88) %
Depletion expense .....	3,237,130	n/a	294,617	n/a
Total direct expenses .....	\$ 9,989,974	16 %	\$ 781,647	9 %

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We follow the successful efforts method of accounting for our oil and gas activities. Accordingly, costs associated with the acquisition, drilling and equipping of successful exploratory wells are capitalized. During the six months ended October 31, 2010 we capitalized approximately \$5,162,143 of costs associated with the acquisition, drilling and equipping of these wells as compared to \$21,511 during the six months ended October 31, 2009. However, geological and geophysical costs, delay and surface rentals and drilling costs of unsuccessful exploratory wells are charged to expense as incurred and are included in the cost of service and drilling revenue. Finally, costs of drilling development wells are capitalized. Upon the sale or retirement of oil and gas properties, the cost thereof and the accumulated depreciation or depletion are removed from the accounts and any gain or loss is credited or charged to operations.

The cost of oil and gas revenues represents direct labor costs of employees associated with these services, as well as costs associated with equipment, parts and repairs. During the three and six months ended October 31, 2010, oil and gas revenue expenses increased \$3,603,528 and \$5,883,592 from the three and six months ended October 31, 2009, respectively, which was primarily due to the cost of revenues spent to generate oil and gas revenue at our Alaska operations. The oil and gas margins decreased from 98% to 41% and 95% to 46% for the three and six month periods comparing fiscal 2010 to 2011 as during 2010 the producing wells required no new expenditures to produce oil and gas. With the Alaska wells, we needed to spend costs to get them to produce. In the future, we expect these margins will fluctuate between 40% and 95% as new wells come on line.

The cost of service and drilling revenue represents direct labor costs of employees associated with these services, as well as costs associated with equipment, parts and repairs. During the three and six months ended October 31, 2010, service and drilling expenses increased \$127,255 and \$378,502 from the three and six months ended October 31, 2009, respectively, due to the contract with the National Park Service.



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During the three and six months ended October 31, 2009, we spent significant time and expense maintaining and repairing our drilling equipment. This is primarily the reason the three and six months ended October 31, 2009 reflected negative margins. As the plugging contract will continue throughout the fiscal year, we expect similar margins for the next three and six month periods.

Depletion of capitalized costs of proved oil and gas properties is provided on a pooled basis using the units-of-production method based upon proved reserves. Acquisition costs of proved properties are amortized by using total estimated units of proved reserves as the denominator. All other costs are amortized using total estimated units of proved developed reserves. During the three and six months ended October 31, 2010 depletion expense was \$1,660,282, or 25% of total revenue, and \$3,237,130, or 27% of total revenue, as compared to 53% and 34% for the three and six months ended October 31, 2009. The primary reason for the increase in depletion expense for the three and six months ended October 31, 2010 was the addition of well production due to acquisitions.

As a result of these components, total direct expenses reflected a margin of 16% and 16% for the three and six months ended October 31, 2010. This represented an increase of 35% and 7% over the margin experienced for the three and six months ended October 31, 2009. However, as a result of higher depletion costs, pipeline transportation costs and royalties payable to Alaska, our gross margins on oil and gas sales from our Alaskan operations will generally be less than oil and gas sales from our Appalachian operations. Given that oil and gas sales from our Alaskan operations are expected to represent the majority of our oil and gas sales in future periods, we anticipate that our gross margins will be lower than those which were historically reported before we acquired these assets. However, we do expect to see an increased margin of at least 5% in future quarters due to the reduction of CIPL transportation costs as previously discussed.

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### SELLING, GENERAL AND ADMINISTRATIVE, DEPRECIATION AND AMORTIZATION AND OTHER INCOME AND EXPENSE

The following tables show the components of our selling, general and administrative, depreciation and amortization and other income and expense for the three and six months ended October 31, 2010 and 2009. Percentages listed in the table reflect percentages of total revenue for each component of other expenses.

	For the Three Months Ended			
	October 31, 2010	% of Revenue	October 31, 2009	% of Revenue
<b>OTHER EXPENSES (INCOME)</b>				
Selling, general and administrative	\$ 3,148,743	47 %	\$ 1,028,840	309 %
Depreciation and amortization .....	615,615	9 %	100,239	30 %
Interest expense, net of interest income .....	409,249	6 %	(1,240)	