TRI VALLEY CORP
Form 10-Q
August 19, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2011	Commission File No. 001-31852

TRI-VALLEY CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware	94-1585250
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4927 Calloway Drive, Bakersfield, California 93312
(Address of Principal Executive Offices)

Registrant's Telephone Number Including Area Code: (661) 864-0500

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 x No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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", "non-accelerated filer", and "smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company x

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

As of August 19, 2011, the Registrant had 67,615,407 shares of common stock ($0.001 par value) and 438,500 shares of Series A preferred stock ($0.001 par value) outstanding.

TRI-VALLEY CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

TRI-VALLEY CORPORATION
CONSOLIDATED BALANCE SHEET

ASSETS

		June 30, 2011 (Unaudited)		December 31, 2010 (Audited)
Current Assets				
Cash	$	1,523,512	$	581,148
Accounts Receivable - Trade		364,410		202,482
Prepaid Expenses		694,073		615,778
Accounts Receivable from Joint Venture Partners		3,943,099		3,943,099
Accounts Receivable - Other		450,712		32,552
Total Current Assets	$	6,975,806	$	5,375,059
Property and Equipment - Net				
Proved Properties, Successful Efforts Method		3,847,873		1,235,932
Unproved Properties, Successful Efforts Method		712,831		1,781,069
Other Property and Equipment		2,717,908		3,139,852
Total Property and Equipment - Net	$	7,278,612	$	6,156,853
Other Assets				
Deposits		403,752		526,749
Investments in Joint Venture Partnerships		23,285		23,285
Goodwill		212,414		212,414
Long-Term Receivable from Joint Venture Partners		3,060,417		2,392,817
Total Other Assets	$	3,699,868	$	3,155,265
Total Assets	$	17,954,286	$	14,687,177

The accompanying notes are an integral part of these Consolidated Financial Statements.

TRI-VALLEY CORPORATION
CONSOLIDATED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY

		June 30, 2011 (Unaudited)		December 31, 2010 (Audited)
Current Liabilities				
Notes Payable	$	70,212	$	134,322
Accounts Payable - Trade and Accrued Expenses		5,922,663		7,738,073
Total Current Liabilities	$	5,992,875	$	7,872,395
Non-Current Liabilities				
Asset Retirement Obligation		192,379		206,183
Long-Term Portion of Notes Payable		414,380		455,246
Total Non-Current Liabilities	$	606,759	$	661,429
Total Liabilities	$	6,599,634	$	8,533,824
Stockholders' Equity				
Series A Preferred Stock - 10.00% Cumulative; $0.001 par, $10.00 liquidation value; 20,000,000 shares authorized; 438,500 shares outstanding		439		439
Common Stock, $0.001 par value; 100,000,000 shares authorized; 67,615,407 and 44,729,117 at June 30, 2011, and December 31, 2010, respectively.		67,615		44,730
Less: Common Stock in Treasury, at cost; 161,847 shares		(129,370)		(38,370)
Capital in Excess of Par Value		78,137,630		66,444,315
Additional Paid in Capital - Warrants		1,363,675		2,868,034
Additional Paid in Capital - Stock Options		2,999,983		2,806,945
Accumulated Deficit		(71,085,320)		(65,972,740)
Total Stockholders' Equity	$	11,354,652	$	6,153,353
Total Liabilities and Stockholders' Equity	$	17,954,286	$	14,687,177

The accompanying notes are an integral part of these Consolidated Financial Statements.

TRI-VALLEY CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	For the Three Months Ended June 30, 2011	For the Three Months Ended June 30, 2010	For the Six Months Ended June 30, 2011	For the Six Months Ended June 30, 2010
Revenues				
Sale of Oil and Gas	$474,099	$465,216	$1,132,057	$920,989
Interest Income	231	904	420	2,019
Gain on Sale of Asset	17,123	1,082,693	27,732	1,673,492
Other Income	11,232	7,810	63,381	15,965
Total Revenues	$502,685	$1,556,623	$1,223,590	$2,612,465
Costs and Expenses				
Mining Exploration Expenses	64,242	85,561	105,595	224,389
Production Costs	459,597	247,177	909,130	532,554
General & Administrative	1,727,129	2,347,956	3,835,055	3,803,308
Interest	102,387	33,250	116,691	55,860
Depreciation, Depletion & Amortization	123,312	168,904	242,207	334,292
Stock Option Expense	159,385	24,278	193,038	51,690
Warrant Expense	-	2,855,454	13,000	4,017,703
Impairment Loss	502,974	-	915,995	-
Bad Debt	-	-	5,460	-
Total Costs and Expenses	$3,139,026	$5,762,580	$6,336,171	$9,019,796
Net Loss	$(2,636,341)	$(4,205,957)	$(5,112,581)	$(6,407,331)
Basic Net Loss Per Share:				
Loss from Operations	$(0.04)	$(0.11)	$(0.09)	$(0.18)
Basic Loss Per Common Share:	$(0.04)	$(0.11)	$(0.09)	$(0.18)
Weighted Average Number of Shares Outstanding	65,698,722	36,902,102	58,741,555	35,039,904
Weighted Potentially Dilutive Shares Outstanding	67,617,719	40,851,924	60,660,552	36,550,615

No dilution is reported since Net Income is a loss per ASC 260.

The accompanying notes are an integral part of these Consolidated Financial Statements.

TRI-VALLEY CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	For the Six Months Ended June 30, 2011		For the Six Months Ended June 30, 2010	
Cash Flows from Operating Activities				
Net Loss	$	(5,112,581)	$	(6,407,331)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities				
Depreciation, Depletion & Amortization		242,207		334,292
Impairment, Dry Hole & Other Disposals of Property		915,995		-
Stock Option Expense		193,038		51,690
Warrant Expense		13,000		4,017,703
(Gain) on Sale of Property		(27,732)		(1,673,492)
Director Stock Compensation		90,312		95,400
Changes in Operating Capital				
(Increase) in Accounts Receivable		(580,088)		(926,923)
(Increase) or Decrease in Deposits, Prepaids & Other Assets		44,702		(641,659)
(Increase) or Decrease in Accounts Receivable from Joint Venture Partners		(667,600)		786,471
(Decrease) in Accounts Payable, Deferred Revenue & Accrued Expenses		(1,815,410)		(1,715,139)
Net Cash Used in Operating Activities	$	(6,704,157)	$	(6,078,988)
Cash Provided (Used) by Investing Activities				
Proceeds from the Sale of Property		96,500		3,059,341
Capital Expenditures		(2,453,531)		(809,476)
(Investment in) Marketable Securities		-		-
Net Cash Used by Investing Activities	$	(2,357,031)	$	2,249,865
Cash Provided (Used) by Financing Activities				
Principal Payments on Long-Term Debt		(104,977)		(161,920)
(Purchase) of Treasury Stock		-		(25,000)
Net Proceeds from the Issuance of Stock Options		-		2,200
Net Proceeds from the Issuance of Common Stock		10,108,529		5,414,945
Net Cash Provided by Financing Activities	$	10,003,552	$	5,230,225
Net Increase in Cash and Cash Equivalents	$	942,364	$	1,401,102
Cash at the Beginning of Period	$	581,148	$	290,926
Cash at the End of Period	$	1,523,512	$	1,692,028

The accompanying notes are an integral part of these Consolidated Financial Statements.

TRI-VALLEY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED
June 30, 2011, and 2010
(Unaudited)

NOTE 1 - DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

DESCRIPTION OF BUSINESS

Tri-Valley Corporation (“Tri-Valley,” “TVC,” or the “Company”) is a Delaware corporation which currently conducts its operations through two wholly-owned subsidiaries. TVC’s principal offices are located at 4927 Calloway Drive, Bakersfield, California 93312. Our telephone number is: (661) 864-0500.

The Company's two wholly-owned subsidiaries are:

Tri-Valley Oil & Gas Co. (“TVOG”) — conducts our hydrocarbon (crude oil and natural gas) business. TVOG derives most of its principal revenue from crude oil and natural gas production.

Select Resources Corporation, Inc. (“Select”) — holds and maintains our precious metals business. Select holds and develops two major mineral assets in the State of Alaska.

Effective for the first quarter of 2011, Tri-Valley's businesses were consolidated into two operating segments:

- Oil and Gas Operations — This segment represents our oil and gas business. This segment generated virtually all of the Company’s revenues from operations during the first three months of 2011. During the first quarter of 2011, management determined that our Rig Operations and Drilling and Development segments were no longer consistent with the Company’s long-term strategic objectives, namely, to increase the value of our petroleum and mineral assets for our shareholders, and consolidated all assets from those two operating segments into the Oil and Gas Operations segment.

- Minerals — This segment represents our precious metal mineral prospects. In the past, it has generated revenues from pilot-scale mining projects and subcontracting exploration and business development projects. This segment holds title to land or leases in the State of Alaska.

For additional information regarding Tri-Valley’s current developments and operating segments, please see Part I. Financial Information, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations elsewhere in this Quarterly Report.

BASIS OF PRESENTATION

The financial information included herein is unaudited; however, such information reflects all adjustments, consisting solely of normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of results for the interim periods. The results of operations for the six-month period ended June 30, 2011, are not necessarily indicative of the results to be expected for the full year.

The accompanying Consolidated Financial Statements do not include footnotes and certain financial presentations normally required under generally accepted accounting principles in the United States of America; and, therefore, should be read in conjunction with our Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission (the "SEC") on March 22, 2011, for the year ended December 31, 2010.

Consolidation Policy

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, TVOG and Select. Other partnerships in which the Company has an operating or non-operating interest, in which the Company is not the primary beneficiary, and has less than 51% ownership, are proportionately combined. These include the TVC OPUS 1 Drilling Program, L.P. ("OPUS"), Martins-Severin, Martins-Severin Deep, and Tri-Valley Exploration 1971-1 Partnership. All material intra- and intercompany accounts and transactions have been eliminated in combination and consolidation.

Reclassification

In Part I., Financial Information, Item 1. Consolidated Financial Statements, Note 6 – Financial Information Relating to Industry Segments, we have eliminated Non-Segmented Items' allocation of Total Assets at June 30, 2011, and at December 31, 2010.

NOTE 2 - PER SHARE COMPUTATIONS

Per share computations are based upon the weighted-average number of common shares outstanding during each period reported. As there were net losses at June 30, 2011, and 2010, common stock equivalents are not included in the computations, as their inclusion would be anti-dilutive.

NOTE 3 – SUMMARY OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-05, Compensation – Stock Compensation (Topic 718): Escrowed Share Arrangements and the Presumption of Compensation. ASU 2010-05 updates existing guidance to address the SEC staff's views on overcoming the presumption that for certain shareholders escrowed share arrangements represent compensation. ASU 2010-05 became effective on January 15, 2010. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS" ("ASU 2011-04"). The amendments in ASU 2011-04 result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. Consequently, ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments in ASU 2011-04 to result in a change in the application of the requirements in Topic 820. ASU 2011-04 is effective prospectively for interim and annual reporting periods beginning after December 15, 2011. This ASU will become effective for the Company beginning in the quarter ended March 31, 2012, and we do not expect an impact on our Consolidated Financial Statements.

In February 2010, the FASB issued ASU 2010-09, Subsequent Events (Topic 855). ASU 2010-09 amends ASC Topic 855 to include the definition of “SEC filer” and alleviate the obligation of SEC filers to disclose the date through which subsequent events have been evaluated. ASU 2010-09 became effective during February 2010. See Part II, Item 8. Financial Statements, Note 15 – Subsequent Events, in the Company’s Annual Report on Form 10-K, filed with the SEC on March 22, 2011, for the year ended December 31, 2010, for the Company’s disclosures of subsequent events.

NOTE 3 - SUMMARY OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Continued)

In December 2010, the FASB issued ASU 2010-28, Intangibles - Goodwill and Other (Topic 350). ASU 2010-28 modifies step one of the goodwill impairment test for reporting units with zero or negative carrying amounts, requiring that an entity perform step two of the goodwill impairment test if it is more likely than not that a goodwill impairment exists for those reporting units. ASU 2010-28 is effective for fiscal years beginning after December 15, 2010. The adoption of ASU 2010-28 did not have an impact on the goodwill impairment test performed by the Company.

NOTE 4 - CHANGES IN SECURITIES

Common Stock

On April 19, 2011, the Company entered into a Stock Purchase Agreement (the "Purchase Agreement") with certain accredited investors (the "Purchasers") to sell and issue to the Purchasers in reliance on Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Rule 506 promulgated thereunder, an aggregate of 10,070,000 shares of common stock (the "Common Shares") at a purchase price of $0.50 per share, resulting in aggregate gross proceeds to the Company of $5.0 million (the "Private Placement"). The Private Placement closed on April 21, 2011. The Company received net proceeds at the closing of approximately $4.7 million after the deduction of placement agent commissions and offering expenses. Please see Item 1.01 Entry into a Material Definitive Agreement, and Item 3.02 Unregistered Sale of Equity Securities, in our Current Report on Form 8-K, filed with the SEC on April 21, 2011, for additional discussion.

During the second quarter of 2011, 127,200 shares of common stock were issued to our six independent directors for services rendered in the twelve months preceding the 2011 Annual Meeting of Stockholders, which was held on June 3, 2011.

140,000 shares of Company common stock pledged as security for the repayment of two notes payable to the Moss Family Trust were released to the Company's treasury stock account upon repayment of the notes during the second quarter of 2011.

During the quarter ended June 30, 2011, the Company returned an aggregate of $411,250 to persons who had attempted to subscribe for shares of the Company's common stock in June and July 2008 and October 2009 private placements, but who failed, despite subsequent requests from the Company, to properly complete subscription documents in accordance with their terms. Having failed to complete the required subscription documents, the putative subscribers never purchased, and the Company never issued, the related shares. Therefore, the Company returned to such persons the original purchase price for the shares, plus statutory interest.

NOTE 5 - STOCK-BASED COMPENSATION EXPENSE

Stock-Based Compensation Expense charged against income for stock-based awards in the second quarters of 2011 and 2010 was $159,385 and $24,278 pre-tax, respectively, and reported separately under stock option expense in the Consolidated Statement of Operations. For further information regarding stock-based compensation expense, please refer to Part II, Item 8. Financial Statements, Note 2 – Summary of Significant Accounting Policies, in our Annual Report on Form 10-K, filed with the SEC on March 22, 2011, for the year ended December 31, 2010.

NOTE 6 - FINANCIAL INFORMATION RELATING TO INDUSTRY SEGMENTS

We report operating segments according to ASC 280, "Disclosure about Segments of an Enterprise and Related Information." During the first quarter of 2011, management consolidated the Rig Operations and Drilling and Development segments into our Oil and Gas Operations segment to be consistent with the Company's long-term strategic objectives. We identify two operating segments as described in Part I, Financial Information, Item 1. Consolidated Financial Statements, Note 1 – Description of Business and Basis of Presentation.

Revenues from the sale of oil and gas for the second quarters of 2011 and 2010 are reflected net of the cost of diluent used to reduce the viscosity of our crude oil and increase the API gravity of the resulting blend, as per industry practice.

The following table sets forth our revenues by operating segment for the three months ended June 30, 2011, and 2010 and for the six months ended June 30, 2011, and 2010 in millions of U.S. Dollars:

	For the Three Months Ended June 30, 2011	For the Three Months Ended June 30, 2010	Increase (Decrease)	Change %
Revenues				
Oil and Gas Operations	0.50	1.60	(1.10)	-69 %
Minerals	-	-	-	0 %
Non-Segmented Items	-	-	-	0 %
Consolidated Revenues	$ 0.50	$ 1.60	(1.10)	-69 %

	For the Six Months Ended June 30, 2011	For the Six Months Ended June 30, 2010	Increase (Decrease)	Change %
Revenues				
Oil and Gas Operations	1.20	2.60	(1.40)	-54 %
Minerals	-	-	-	0 %
Non-Segmented Items	-	-	-	0 %
Consolidated Revenues	$ 1.20	$ 2.60	(1.40)	-54 %

The following table sets forth our net income (loss) by segment for the three months ended June 30, 2011, and 2010 and for the six months ended June 30, 2011, and 2010, in millions of U.S. Dollars:

	For the Three Months Ended June 30, 2011	For the Three Months Ended June 30, 2010	Increase (Decrease)	Change %
Results of Operations				
Oil and Gas Operations	(0.70)	1.00	(1.70)	-170 %
Minerals	(0.10)	(0.10)	-	0 %
Non-Segmented Items	(1.80)	(5.10)	3.30	65 %
Net Loss	$ (2.60)	$ (4.20)	1.60	38 %

Increase

	For the Six Months Ended June 30, 2011	For the Six Months Ended June 30, 2010	(Decrease)	Change %
Results of Operations				
Oil and Gas Operations	(1.00)	1.90	(2.90)	-153 %
Minerals	(0.20)	(0.30)	0.10	33 %
Non-Segmented Items	(3.90)	(8.00)	4.10	50 %
Net Loss	$ (5.10)	$ (6.40)	1.30	20 %

The following table summarizes our total assets, in millions of U.S. Dollars at June 30, 2011, and December 31, 2010:

	June 30, 2011	December 31, 2010
Total Assets		
Oil and Gas Operations	17.00	14.30
Minerals	1.00	0.40
Total Consolidated Assets	$ 18.00	$ 14.70

NOTE 7 - GOING CONCERN

We had a cash balance of $0.6 million at December 31, 2010. That balance increased by $0.9 million to $1.5 million at June 30, 2011. Current liabilities as of December 31, 2010, were $7.9 million and $6.0 million as of June 30, 2011, a decrease of $1.9 million. See Part II, Item 8. Financial Statements, Note 11 - Commitments and Contingencies, Contractual Obligations and Contingent Liabilities and Commitments, in our Annual Report on Form 10-K, filed with the SEC on March 22, 2011, for the year ended December 31, 2010, for additional discussion.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. We are dependent on raising additional capital; however, certain factors, such as the economic climate and interest rates, which directly affect the supply of capital, are beyond the Company's control. As such, the Company has no certainty that capital will be available when needed; and these conditions raise substantial doubt about our ability to continue as a going concern. See Part II, Item 8. Financial Statements, Note 14 – Going Concern, in our Annual Report on Form 10-K, filed with the SEC on March 22, 2011, for the year ended December 31, 2010, for additional discussion.

NOTE 8 - SUBSEQUENT EVENTS

Execution of Letter of Intent with US Gold Corporation

On May 31, 2011, Select entered into a binding letter of intent with US Gold Corporation ("US Gold"), which outlined the principal terms and conditions for a four-year Exploration Lease with Option to Purchase Property and Form Joint Venture (the "Definitive Agreement") with respect to Select's Richardson Project ("Richardson") in Alaska. On July 1, 2011, Select and US Gold executed the Definitive Agreement.

Under the terms of the Definitive Agreement, US Gold has acquired an exploration lease for Richardson, along with an exclusive option to purchase a 60% interest in the project and the right to enter into a joint venture with Select for its development. US Gold's option to purchase a 60% interest in Richardson will vest upon completion of $5 million of exploration expenditures and 30,000 feet of core drilling during the term of the Definitive Agreement. The parties have agreed that US Gold may terminate the Definitive Agreement after completing $2.2 million in exploration expenditures and performing 15,000 feet of core drilling at Richardson, which is required during the first two years of the Definitive Agreement. Should US Gold elect to terminate the Definitive Agreement, Select will retain its 100% interest in Richardson. Select received its first option payment of $200,000 upon execution of the Definitive Agreement and will receive another $100,000 upon reaching the first anniversary of the agreement. Select is also entitled to receive additional option payments of $100,000 for each of the remaining two years of the exploration lease period if US Gold exercises its option. Please see Item 1.01 Entry into a Material Definitive Agreement, in our Current Report on Form 8-K, filed with the SEC on July 8, 2011, for additional discussion.

Executive Retirement Agreement and General Release with Mr. James C. Kromer

On July 15, 2011, Tri-Valley and Mr. James C. Kromer entered into an Executive Retirement Agreement and General Release ("Executive Agreement and Release"), pursuant to which Mr. Kromer resigned from all positions with the Company, including as Vice President of Operations, and from all Company subsidiary positions. Mr. Kromer's resignation was effective as of July 15, 2011, subject to a seven-day "cooling off" period, during which period Mr. Kromer had the right to revoke his resignation and be restored to all positions with the Company. Mr. Kromer never revoked his resignation.

Pursuant to the Executive Agreement and Release, on July 18, 2011, the Company paid Mr. Kromer $46,500, less applicable withholdings. In addition, following the expiration of the seven-day cooling off period, the Company paid

Mr. Kromer an additional $46,500, payable pro rata in semi-monthly installments, less applicable withholdings, beginning on July 31, 2011, and each pay period thereafter until October 15, 2011.

In exchange for Mr. Kromer's surrender of all outstanding Company issued stock options, the Executive Agreement and Release provided for a grant to Mr. Kromer of a three-year Warrant to purchase 75,000 shares of Company common stock at a purchase price of $0.58 per share, the closing price of the common stock on July 15, 2011, as reported on the NYSE Amex.

Mr. Kromer's day-to-day responsibilities for oil and gas operations were assumed by Mr. Maston N. Cunningham, Tri-Valley's President and CEO until such time as a replacement for Mr. Kromer is named. Please see Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers, in our Current Report on Form 8-K, filed with the SEC on July 19, 2011, for additional discussion. The required disclosures of the Executive Agreement and Release have been incorporated into the Company's Consolidated Financial Statements.

CEO Base Salary Increase

On August 16, 2011, the Board of Directors of the Company increased the annual base salary of Maston N. Cunningham, the Company's President and Chief Executive Officer. Effective as of August 16, 2011, Mr. Cunningham's annual base salary was increased to $300,000. The base salary increase for Mr. Cunningham was made based upon the recommendation of the Compensation Committee of the Board of Directors. In April 2011, the Compensation Committee engaged Pearl Meyer & Partners as an independent and objective third-party compensation consultant to conduct an executive officer and non-employee director compensation review and evaluation and to provide the Compensation Committee with assistance and recommendations in developing a new comprehensive compensation program. The base salary increase for Mr. Cunningham is expected to be the first step in revamping the strategy, design, and effectiveness of the Company's executive compensation program to bring total compensation to approximately the 35th percentile for frame-of-reference competitive employers.

CFO Resignation

On August 15, 2011, John E. Durbin, our Chief Financial Officer, tendered his resignation, effective as of August 29, 2011. Mr. Durbin is resigning to pursue other opportunities and not as a result of any disagreement with the Company. Until a successor Chief Financial Officer has been chosen, Mr. Maston N. Cunningham, President and Chief Executive Officer of the Company, will serve as the Company's interim Chief Financial Officer. The Company is interviewing experienced financial executives to perform the CFO's functions under Mr. Cunningham's supervision until the successor Chief Financial Officer has been chosen.

OPUS Matters

As disclosed in greater detail in Part II. Other Information, Item 5. Other Information—OPUS Matters, contained elsewhere in this Quarterly Report on Form 10-Q, the Company has entered into a term sheet with the OPUS Special Committee in connection with the restructuring of OPUS and the resolution of alleged claims first brought to the Company's attention by OPUS partner, G. Robert Miller, in August 2010. Pursuant to the term sheet, $32.3 million (plus 5.25% per annum simple interest attributable to the OPUS Preferred Return Amount, as described below) will be allocated to current OPUS partners on a prospective basis from the following two sources:

The ORRIs. The Company will contribute 100% of its overriding royalty interests ("ORRIs") on each of the Pleasant Valley ("PV") properties to a new joint venture company, of which the Company will be a 25% equity partner and current OPUS partners will, in the aggregate, own a 75% equity interest. The parties have assigned a discounted, net present value of $12.0 million to the ORRIs to be contributed by the Company. This amount is based on the expected future revenues to be generated under the ORRIs by the new joint venture company.

Preferential Right of Return. The remaining $20.3 million (plus a 5.25% per annum simple interest accrual on any unreturned portion thereof until satisfied) (collectively, the "OPUS Preferred Return Amount") will be funded from the Company's portion of the net cash flow generated by the new joint venture company from the PV Oil Sands Project. All net cash flow generated by the joint venture company that would otherwise be allocable to the Company will instead be allocated solely to the current OPUS partners until such time as the OPUS Preferred Return Amount is satisfied in full. Assuming satisfaction in full of the OPUS Preferred Return Amount, all net cash flow generated by the joint venture company will be allocated 25% to the Company and 75% to current OPUS partners.

Therefore, 25% of any ORRI income that would have otherwise been allocable to the Company, and 25% of any other cash flow allocations that would have otherwise been allocable to the Company will be allocated instead to current OPUS partners until the OPUS Preferred Return Amount is satisfied. Subject to a number of factors and uncertainties, including those which have been identified elsewhere in this Quarterly Report and in the Company's other filings with the SEC, we expect that the OPUS Preferred Return Amount will be satisfied from the new joint venture company's net cash flow in six to eight years following the closing.

The Company has agreed to pledge its 25% equity interest in the new joint venture company as security for satisfaction of the OPUS Preferred Return Amount. The existing tolling agreement executed in September 2010 with G. Robert Miller will be replaced by a new tolling agreement. The new tolling agreement, which will be put in place by Mr. Miller for the benefit of current OPUS partners, will be designed to give the Company the ability to satisfy the OPUS Preferred Return Amount on a prospective basis from the net cash flow to be generated by the new joint venture company without the threat of litigation.

Consummation of the transactions contemplated by the agreed-upon term sheet is subject to a number of conditions being satisfied, including, but not limited to, the negotiation and execution of definitive agreements, the ratification of the settlement terms and new operating structure by the Board of Directors of Tri-Valley and at least a majority in interest of the OPUS partners (not including the interests held by affiliates of Tri-Valley), and no court order or regulatory action enjoining the consummation of the transactions contemplated by the term sheet.

For additional information, please see Part II. Other Information, Items 1A (Risk Factors) and 5 (Other Information) contained elsewhere in this Quarterly Report on Form 10-Q.

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

Notice Regarding Forward-Looking Statements

All statements contained in this Quarterly Report that refer to future events or other non-historical matters are forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. We have attempted to identify forward-looking statements by terminology including “anticipates,” “believes,” “can,” “continue,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” or “predicts,” or the neg terms or other comparable terminology. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. These statements are only predictions based on management’s expectations as of the date of this Quarterly Report, and involve known and unknown risks, uncertainties and other factors, including, without limitation, those disclosed under this “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and under “Part II, Item 1A. Risk Factors” contained in this Quarterly Report, as well as those other risks and factors that are discussed in our filings with the SEC from time to time, including, but not limited to, under “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contained in our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on March 22, 2011, and under “Part II, Item 1A. Risk Factors” contained in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, filed with the SEC on May 9, 2011. Except as required by law, we undertake no obligation to update or revise publicly any of the forward-looking statements after the date of this Quarterly Report to conform such statements to actual results or to reflect events or circumstances occurring after the date of this Quarterly Report.

Overview

We operate as the parent company for our principal subsidiaries, Tri-Valley Oil & Gas Co. (“TVOG”), which explores for and produces oil and natural gas in California, and Select Resources Corporation, Inc. (“Select”), which holds and maintains two major mineral assets in the State of Alaska. Our reportable operating segments are Oil and Gas Operations and Minerals.

Oil and Gas Operations

Our oil and gas operations primarily consist of exploring and drilling for, and ultimately producing and selling, crude oil and natural gas. As a result, TVOG derives most of its principal revenue from the production and sale of crude oil and natural gas. The profitability of our operations in any particular accounting period will be directly related to the realized prices of crude oil and natural gas sold, the type and volume of crude oil and natural gas produced, and the results of development and exploitation activities. Realized prices for natural gas will fluctuate from one period to another due to regional market conditions and other factors, while oil prices will be predominantly influenced by global supply and demand. Oil and natural gas prices are volatile and change for reasons that are beyond our control. Decreases in the price we receive for our oil and natural gas production will have an adverse effect on our business, financial condition, results of operations, and liquidity. The aggregate amount of crude oil and gas produced may fluctuate based on the success of development and exploitation of oil and gas reserves pursuant to current reservoir management. We benefit from lower natural gas prices as we are a consumer of natural gas in our California operations. The cost of natural gas used in our steaming operations, production rates, labor, equipment costs, maintenance expenses, and production taxes are expected to be the principal influences on operating costs. Accordingly, our results of operations may fluctuate from period to period based on the foregoing principal factors, among others.

Our average net production of heavy oil from cyclic steaming operations at our Pleasant Valley and Claflin projects was 71 barrels of oil per day (BOPD) in both the second quarters of 2011 and 2010, and 82 BOPD in the first quarter of 2011. Eight new vertical wells were drilled at our Claflin oil project in the Edison Field during April of this year. Two of the new wells received their initial steam injection cycle in June, and initial steam injection was performed on a third well during July 2011. Oil production commenced from the first of the new wells in late June; and during July, three of the new wells were producing oil at initial rates of between 30 to 40 BOPD per well in line with our expectations. Production operations at Claflin have been curtailed due to required modifications to our steam generation facilities to comply with best operating practices and air quality emission standards of the San Joaquin Valley Air Pollution Control District. We expect to resume steam injection on the remainder of the new wells during the second half of September of this year, once the generator modifications are completed. Our 3-D seismic acquisition at Claflin has also been delayed due to difficulties in securing surface and mineral owner permits. All permits have now been received and survey work has commenced. Seismic data acquisition should be completed in the second half of August 2011, and an initial interpretation of results should be available in late September.

Based on these delays, we are revising our Claflin development plan for the remainder of 2011 to drill two new horizontal wells in the fourth quarter, so that we can evaluate the production results before drilling additional horizontal wells to fully develop the Claflin lease in 2012. Accordingly, we have lowered our estimated year-end exit rate at Claflin from 800 BOPD to 250 BOPD. We expect our total net heavy oil production from Pleasant Valley and Claflin to increase to 300 BOPD by fiscal year end.

On August 18, 2011, we reached preliminary, amicable terms with the OPUS Special Committee for the resolution of issues with OPUS. For additional information, please refer to Part II. Other Information, Item 5. Other Information—OPUS Matters, contained elsewhere in this Quarterly Report on Form 10-Q, which is incorporated by reference herein.

Minerals

Our minerals business primarily consists of holding two major minerals assets in the State of Alaska, which we refer to as the Richardson and Shorty Creek properties, respectively. Select holds title to these properties and related mining claims, both through direct ownership and through leasing arrangements. In the past, we have generated revenues from pilot-scale mining projects and subcontracting exploration and business development projects. However, these precious metal properties will require substantial investment to discover and delineate sufficient mineral resources to justify any future commercial development. To date, we have realized no significant revenue from our mineral properties in Alaska and cannot predict when, if ever, we may see significant returns from our precious metal investments. Precious metals mining is highly labor- and capital-intensive; therefore, the cost of labor and equipment, maintenance expenses, royalties, and production taxes are expected to be the principal influences on our operating costs in this segment.

Select and US Gold Corporation ("US Gold") (NYSE and TSX: UXG) entered into a four-year Exploration Lease with Option to Purchase Property and Form Joint Venture with respect to our Richardson property. Under the terms of the agreement, US Gold acquired an exploration lease for Richardson, along with an exclusive option to purchase a 60% interest in the project and the right to enter into a joint venture with Select for its development. US Gold's option to purchase a 60% interest in Richardson will vest upon completion of $5.0 million of exploration expenditures and 30,000 feet of core drilling during the term of the Definitive Agreement. The parties have agreed that US Gold may terminate the Definitive Agreement after completing $2.2 million in exploration expenditures and performing 15,000 feet of core drilling at Richardson, which is required during the first two years of the Definitive Agreement. Should US Gold elect to terminate the Definitive Agreement, Select will retain its 100% interest in Richardson. Select received its first option payment of $200,000 upon execution of the Definitive Agreement on July 1, 2011, and will receive another $100,000 upon reaching the first anniversary of the agreement. Select is also entitled to receive additional option payments of $100,000 for each of the remaining two years of the exploration lease period if US Gold exercises its option.

Following execution of the Definitive Agreement, US Gold commenced operations at Richardson on July 5, 2011, to collect auger soil samples for laboratory analysis, and other activities have been completed to permit core drilling operations later this year. A drilling permit has been obtained, and US Gold is currently sourcing drilling equipment to perform approximately 5,000 feet of core drilling at Richardson during the fall of this year as weather permits.

Notable Items for the Second Quarter of 2011:

- Reviewed our business strategy and current corporate events at the Independent Petroleum Association of America ("IPAA") Oil & Gas Symposium New York ("OGIS New York") on April 13, 2011;
- Entered into a long-term lease for a new office location to significantly reduce cost and improve efficiency;
- Closed a $5.0 million private placement financing with a select group of institutional and accredited investors through which, in the aggregate, we raised net proceeds of $4.7 million to provide funding for further development of the first drilling phase at our Claflin oil project;
- Completed the first drilling phase at our Claflin oil project, drilling eight new vertical wells from the six wells initially planned;
- Commenced the initial steam injection cycle on the first new Claflin oil wells in June 2011;
- Completed an NI 43-101 Report on our Richardson gold exploration project in Alaska;
- Acquired additional oil and gas leases in the Edison Oil Field near Claflin to increase our holdings from 160 to 419 net acres; and
- Established a Special Committee of Partners from the TVC OPUS 1 Drilling Program, L.P., to independently review potential claims of the partnership against Tri-Valley and negotiate with the Company to resolve these issues and implement other changes in the business relationship to facilitate development of the Pleasant Valley heavy oil properties.

Notable Items and Expectations for the Third Quarter and Full Year 2011:

- Executed a Definitive Agreement with US Gold Corporation on July 1, 2011, for a four-year exploration lease and purchase option with respect to Select's Richardson Minerals Project in Alaska;
- Reviewed our business strategy and current corporate events at the 2011 Global Hunter Securities Conference in San Francisco on July 18, 2011;
- Drilling of 2 new horizontal wells, at our Claflin oil project;
- Completion of modifications to Claflin steam generation facilities and initial steam injection cycles on the remaining 5 new wells;
- Produced first oil from some of the new Claflin oil wells starting in July 2011; and

Continue working with the OPUS Special Committee toward the preparation and execution of definitive agreements relating to the agreed-upon restructuring terms, which will be submitted to the OPUS partners for approval.

RESULTS OF OPERATIONS

Unless otherwise indicated, discussion of results for the three- and six-month periods ended June 30, 2011, is based on a comparison with the corresponding periods of 2010.

CONSOLIDATED

For the three and the six months, respectively, ended June 30, 2011, total revenues were $0.5 million and $1.2 million, compared with $1.6 million and $2.6 million, respectively, for the three and six months ended June 30, 2010, reflecting decreases of $1.1 million and $1.4 million, respectively. The decreases in total revenues between the comparable periods resulted from a gain on the sale of assets of $1.7 million during the first and the second quarters of 2010, partially offset by increased oil and gas sales in the six months ended June 30, 2011. During the second quarter of 2011, no significant asset sales occurred. Oil and gas sales for the three months ended June 30, 2011, were, effectively, unchanged from the same period last year. For the six months ended June 30, 2011, oil and gas sales were $0.2 million higher than the same period in 2010, primarily as a result of higher production and improved pricing.

Total costs and expenses for the three months ended June 30, 2011, were $3.1 million versus $5.8 million for the second quarter of 2010, a reduction of $2.7 million. For the six-month period ended June 30, 2011, total costs and expenses were $6.3 million compared with $9.0 million for the same period of 2010, a decrease of $2.7 million. The decrease in total costs and expenses during the second quarter of 2011 versus the same reporting period of 2010 was primarily attributable to reductions in warrant expense of $2.9 million and in general and administrative expenses of $0.6 million, partially offset by an impairment loss of $0.5 million for expired leases, as well as, $0.1 million in stock option expense. The reduction in general and administrative expenses between the second quarters of 2011 and 2010 reflected lower total salary and benefits expenses following staff reductions, as well as, lower legal expenses resulting from settlement of litigation on one of our Pleasant Valley Oil Sands Project leases during the first quarter of the year. The decrease in total costs and expenses for the six-month period ended June 30, 2011, versus the same reporting period last year was primarily attributable to reductions in mining exploration expenses of $0.1 million, following the disposition of the Admiral Calder calcium carbonate quarry; to a reduction in warrant expense of $4.0 million; to increased production costs of $0.4 million from increased production activity in 2011 at our Claflin Project; and to an impairment loss of $0.9 million for expired leases. Overall general and administrative expenses remained constant for the two six-month reporting periods of 2011 and 2010. Previously-discussed lower total salary and benefit and legal expenses were offset by increased capital formation fees during the first half of 2011, versus the prior year.

For the second quarter of 2011, our net loss was $2.6 million versus $4.2 million for the same period last year. The improvement of $1.6 million between the comparable reporting periods was primarily attributable to reduced warrant expense. For the six months ended June 30, 2011, our net loss was $5.1 million versus $6.4 million for the same period last year. The improvement of $1.3 million was primarily due to the previously-discussed lower warrant expense and higher impairment loss. The impairment loss resulted from the write off of expired leases and leases for which the acreage was insufficient for economic development.

Revenues

We identify segment revenue by the business or service provided. We also allocate interest income and gain on sale of assets to each reportable segment. Non-segmented revenues are primarily derived from partnership income in partnerships in which we have less than a 51% ownership. To measure the segment's operating income or loss, we allocate costs and expenses in the same manner as revenue; however, all items that are general and administrative in nature and are not directly traceable to a segment, are considered non-segmented expenses.

The following tables set forth our revenues and changes in revenues by segment for the second quarters and first halves of 2011 and 2010, in millions of U.S. Dollars:

	For the Three Months Ended June 30, 2011	For the Three Months Ended June 30, 2010	Increase (Decrease)	Change %
Revenues				
Oil and Gas Operations	0.50	1.60	(1.10)	-69 %
Minerals	-	-	-	0 %
Non-Segmented Items	-	-	-	0 %
Consolidated Revenues	$ 0.50	$ 1.60	(1.10)	-69 %

	For the Six Months Ended June 30, 2011	For the Six Months Ended June 30, 2010	Increase (Decrease)	Change %
Revenues				
Oil and Gas Operations	1.20	2.60	(1.40)	-54 %
Minerals	-	-	-	0 %
Non-Segmented Items	-	-	-	0 %
Consolidated Revenues	$ 1.20	$ 2.60	(1.40)	-54 %

Net Loss

The following tables set forth our net loss and changes in net loss by segment in the second quarters and first halves of 2011 and 2010, in millions of U.S. Dollars:

	For the Three Months Ended June 30, 2011	For the Three Months Ended June 30, 2010	Increase (Decrease)	Change %
Results of Operations				
Oil and Gas Operations	(0.70)	1.00	(1.70)	-170 %
Minerals	(0.10)	(0.10)	-	0 %
Non-Segmented Items	(1.80			