

TRI VALLEY CORP
Form 10-Q/A
June 12, 2006

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

FORM 10-Q/A-1

AMENDMENT NO. 1 TO THE
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

Commission File No. 001-31852

Tri-Valley Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

84-0617433
(I.R.S. Employer Identification No.)

4550 California Avenue, Suite 600, Bakersfield, California 93309
(Address of principal executive offices)

(661) 864-0500
(Registrant's telephone number, including area code)

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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

The number of shares of Registrant's common stock outstanding at April 28, 2006, was 23,188,351.

TRI-VALLEY CORPORATION

INDEX

| | <u>Page</u> |
|---|-------------|
| PART I - FINANCIAL INFORMATION | 3 |
| Item 1. Consolidated Financial Statements | 3 |
| Item 1A. Risk Factors | 10 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 10 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 14 |
| Item 4. Controls and Procedures | 14 |
| PART II - OTHER INFORMATION | 14 |
| Item 2. Unregistered Sales of Equity Securities | 14 |
| Item 6. Exhibits | 14 |
| SIGNATURES | 15 |

Introductory Note:

This Amendment No. 1 to Tri-Valley Corporation's Form 10-Q for the quarter ended March 31, 2006, contains technical revisions to the originally filed 10-Q. No information has been revised on Tri-Valley's Unaudited Balance Sheets, Consolidated Statements of Operations, or Consolidated Statements of Cash Flow.

Part I - FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Financial Statements

TRI-VALLEY CORPORATION
CONSOLIDATED BALANCE SHEETS

| | <u>March 31,</u> <u>2006</u> (Unaudited) | <u>December 31,</u> <u>2005</u> (Audited) |
|-----------------------------------|--|---|
| <u>ASSETS</u> | | |
| Current assets | | |
| Cash | \$ 4,936,443 | \$ 4,876,921 |
| Accounts receivable, trade | 157,944 | 273,409 |
| Advance receivable | 594,746 | 158,460 |
| Prepaid expenses | <u>42,529</u> | <u>42,529</u> |
| Total current assets | <u>5,731,662</u> | <u>5,351,319</u> |
| Property and equipment, net | | |
| Proved properties | 986,172 | 1,146,103 |
| Unproved properties | 2,787,607 | 3,009,564 |
| Other property and equipment | <u>9,603,873</u> | <u>9,480,314</u> |
| Total property and equipment, net | <u>13,377,652</u> | <u>13,635,981</u> |

| | | |
|-----------------------------|----------------------|----------------------|
| Other assets | | |
| Deposits | 1,502,004 | 316,614 |
| Investments in partnerships | 17,400 | 17,400 |
| Goodwill | 212,414 | 212,414 |
| Other | <u>142,844</u> | <u>205,002</u> |
| Total other assets | <u>1,874,662</u> | <u>751,430</u> |
| Total assets | <u>\$ 20,983,976</u> | <u>\$ 19,738,730</u> |

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

3

LIABILITIES AND STOCKHOLDERS'
EQUITY

| | <u>March 31,</u> <u>2006</u> (Unaudited) | <u>December 31,</u> <u>2005</u> (Audited) |
|---|--|---|
| Current liabilities | | |
| Notes payable | \$ 1,104,917 | \$ 966,649 |
| Accounts payable and accrued expenses | 1,604,091 | 1,190,604 |
| Advances from Great Valley Drilling, LLC | 748,000 | - |
| Amounts payable to joint venture participants | 379,128 | 161,747 |
| | <u>5,428,197</u> | <u>5,318,645</u> |
| Advances from joint venture participants, net | | |
| Total current liabilities | <u>9,264,333</u> | <u>7,637,645</u> |

| | | |
|--|----------------------|----------------------|
| Non-Current Liabilities | | |
| Due to joint ventures | 257,506 | 201,748 |
| Asset Retirement Obligation | 93,897 | 92,108 |
| | <u>5,103,495</u> | <u>4,234,509</u> |
| Long-term portion of notes payable | | |
| | <u>5,454,898</u> | <u>4,528,365</u> |
| Total non-current liabilities | | |
| | <u>14,719,231</u> | <u>12,166,010</u> |
| Total liabilities | | |
| Stockholders' equity | | |
| Common stock, \$.001 par value; 100,000,000 shares authorized; 23,163,351 and 22,806,176 issued and outstanding at March 31, 2006, and December 31, 2005, respectively | | |
| | 23,163 | 22,806 |
| Less: common stock in treasury, at cost, 100,025 shares | | |
| | (13,370) | (13,370) |
| Capital in excess of par value | 27,357,250 | 25,629,775 |
| Additional paid in capital - stock options | 52,060 | - |
| Accumulated deficit | <u>(21,154,358)</u> | <u>(18,066,491)</u> |
| | <u>6,264,745</u> | <u>7,572,720</u> |
| Total stockholders' equity | | |
| Total liabilities and stockholder's equity | <u>\$ 20,983,976</u> | <u>\$ 19,738,730</u> |

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

TRI-VALLEY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | For the Three Months Ended March 31 | |
|--|--|---------------------------|
| | <u>2006</u> | <u>2005</u> |
| Revenues | | |
| Sale of oil and gas | \$ 318,722 | \$ 169,126 |
| Other income | 44,186 | 9,649 |
| Interest income | <u>6,857</u> | <u>23,333</u> |
| Total Revenues | <u>369,765</u> | <u>202,108</u> |
| Cost and Expenses | | |
| Oil and gas lease expense | 57,414 | 20,215 |
| Mining exploration expenses | 1,196,490 | 2,198,246 |
| Drilling and development | 42,561 | 192,407 |
| Depletion, depreciation and amortization | 275,049 | 19,376 |
| Interest | 181,581 | 347 |
| Impairment loss | 458,564 | - |
| General administrative | <u>1,222,213</u> | <u>1,146,628</u> |
| Total Cost and Expenses | <u>3,433,872</u> | <u>3,577,219</u> |
| Net Income (Loss) | <u>\$ (3,064,107)</u> | <u>\$ (3,375,111)</u> |
| Basic Earnings per common share | <u>\$ (.13)</u> | <u>\$ (.15)</u> |
| Weighted average number of shares outstanding | 22,938,902 | 22,123,363 |
| Diluted Earnings per common equivalent share | <u>\$ (.12)</u> | <u>\$ (.15)</u> |
| Diluted average number of shares outstanding | 25,660,058 | 22,123,363 |

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

5

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

| | For the Three Months <u>Ended March 31,</u> | |
|--|--|----------------|
| | <u>2006</u> | <u>2005</u> |
| Cash Flows from Operating Activities | | |
| Net profit (loss) | \$ (3,064,107) | \$ (3,375,111) |
| Adjustments to reconcile net income to net cash used from operating activities: | | |
| Depreciation, depletion and amortization | 275,049 | 19,376 |
| Non cash mining exploration expense | - | 2,010,000 |
| Impairment, dry hole and other disposals of property | 458,564 | - |
| Changes in operating capital: | | |
| Prepays-(increase) decrease | - | 10,027 |
| Deposits-(increase) decrease | (13,232) | (257,159) |
| Accounts receivable-(increase) decrease | (320,821) | (71,204) |
| Trade accounts payable-increase (decrease) | 368,087 | 10,566 |
| Advances from Great Valley Drilling, LLC-increase (decrease) | 748,000 | - |
| Accounts payable to joint venture participants and related parties-increase (decrease) | 273,139 | 58,723 |

Edgar Filing: TRI VALLEY CORP - Form 10-Q/A

| | | |
|--|---------------------|----------------------|
| Advances from joint venture | | |
| Participants-increase (decrease) | <u>109,552</u> | <u>6,052,185</u> |
| Net Cash Provided (Used) by Operating Activities | <u>(1,165,769)</u> | <u>4,457,403</u> |
| Cash Flows from Investing Activities | | |
| Note receivable | - | (1,100,000) |
| Capital expenditures | <u>(499,044)</u> | <u>(906,832)</u> |
| Net Cash Provided (Used) by Investing Activities | <u>(499,044)</u> | <u>(2,006,832)</u> |
| Cash Flows from Financing Activities | | |
| Proceeds from long-term debt | 1,268,755 | - |
| Principal payments on long-term debt | (214,312) | (1,958) |
| Net proceeds from additional paid in capital - stock options | 52,060 | |
| Proceeds from issuance of common stock | <u>617,832</u> | <u>1,114,350</u> |
| Net Cash Provided (Used) by Financing Activities | <u>1,724,335</u> | <u>1,112,392</u> |
| Net Increase in Cash and Cash Equivalents | 59,522 | 3,562,963 |
| Cash and Cash Equivalents at Beginning of Period | <u>4,876,921</u> | <u>11,812,920</u> |
| Cash and Cash Equivalents at End of Period | <u>\$ 4,936,443</u> | <u>\$ 15,375,883</u> |
| Supplemental Information: | | |
| Cash paid for interest | \$ 155,841 | \$ 347 |
| Cash paid for taxes | \$ - | \$ - |

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

TRI-VALLEY CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
March 31, 2006 and 2005
(Unaudited)

NOTE 1 - DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Tri-Valley Corporation ("Tri-Valley" or the "Company"), a Delaware corporation formed in 1971, is in the business of exploring, acquiring and developing petroleum and metal and mineral properties and interests therein. Tri-Valley has five subsidiaries and three operating segments or business lines.

Tri-Valley Oil & Gas Company ("TVOG") operates the oil & gas activities. TVOG derives the majority of its revenue from oil and gas drilling and development. TVOG primarily generates its own exploration prospects from its internal database, and also screens prospects from other geologists and companies. TVOG generates these geological "plays" within a certain geographic area of mutual interest. The prospect is then presented to potential co-ventures. The company deals with both accredited individual investors and energy industry companies. TVOG serves as the operator of these co-ventures. TVOG operates both the oil and gas production segment and the drilling and development segment of our business lines.

Select Resources Corporation ("Select") was created in late 2004 to manage, grow and operate Tri-Valley's mineral interests. Select operates the Minerals segment of our business lines both through a joint venture, Tri-Western Resources, LLC and itself.

Great Valley Production Services, Inc. is a wholly owned subsidiary formed in February 2006 and subsequently converted to an LLC in April 2006 to operate oil production rigs, primarily for TVOG. Tri-Valley plans to sell up to a 49% interest in the subsidiary and to retain a 51% interest. At March 31, 2006, no equity interests had been sold.

Great Valley Drilling Company, LLC was formed in March 2006 to operate oil drilling rigs, primarily for TVOG. Tri-Valley plans to sell up to a 49% interest in the subsidiary and to retain a 51% interest. At March 31, 2006, 23% of the equity interest in this subsidiary had been sold.

Tri-Valley Power Corporation is inactive at the present time.

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 three-month period ended March 31, 2006, 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 Securities and Exchange Commission on March 31, 2006, for the year ended December 31, 2005.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, Tri-Valley Oil & Gas Co., Select Resources, Inc. and Tri-Valley Power Corporation and Great Valley Production Services, Ind., since their inception. Partially owned subsidiary Great Valley Drilling Company, LLC, is also included. Because the Company is the principal beneficiary of a mining venture, it has also consolidated a 50% owned joint venture, Tri-Western Resources, LLC. Other partnerships in which the Company has an operating or nonoperating interest in which the Company is not the primary beneficiary and owns less than 51%, are proportionately combined. These include Opus I, Martins-Severin, Martins-Severin Deep, and Tri-Valley Exploration 1971-1 partnerships. All material intra and intercompany accounts and transactions have been eliminated in combination and consolidation.

NOTE 2 - PER SHARE COMPUTATIONS

Per share computations are based upon the weighted-average number of common shares outstanding during each year. Common stock equivalents are not included in the computations since their effect would be anti-dilutive.

NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), "Share-Based Payment" (Statement 123R), which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation." Statement 123R supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." Statement 123R requires a public company to measure the cost of employee services received in exchange for an award of equity instruments, including stock options, based on the grant-date fair value of the award, with limited exceptions. That cost will be recognized over the period during which the employee is required to provide service in exchange for the award, which is typically the vesting period. Statement 123R eliminates the alternative to use Opinion 25's intrinsic value method of accounting that was provided in Statement 123 as originally issued.

The Company adopted FASB Statement No. 123 (Revised), "Share-Based Payment," as of January 1, 2006 using the "modified prospective" method permitted by the Statement. The modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123R for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123R that remain unvested on the effective date.

Prior to adoption of Statement 123R, Tri-Valley accounted for share-based payments to employees under Statement 123 using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. The adoption of Statement 123R's fair-value method will impact Tri-Valley's results of operations, although the future impact of adoption of Statement 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. The expense for the first quarter of 2006 is \$52,060.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS 150 addresses certain financial instruments that, under previous guidance, could be accounted for as equity, but now must be classified as liabilities in statements of financial position. These financial instruments include: (1) mandatorily redeemable financial instruments, (2) obligations to repurchase the issuer's equity shares by transferring assets, and (3) obligations to issue a variable number of shares. With limited exceptions, SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect that the adoption of SFAS 150 will have a material impact on its results of operations and financial position.

8

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143," (FIN 47) which clarifies the term "conditional asset retirement obligation" used in SFAS No. 143, "Accounting for Asset Retirement Obligations," and specifically when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. We adopted FIN 47 as of December 31, 2005. We do not expect the adoption of FIN 47 to have a material impact on our consolidated results of operations and financial condition.

NOTE 4 - NOTES PAYABLE

In the quarter ended March 31, 2006 Tri-Valley issued three promissory notes. Two of these notes were to Ed Moss, Trustee, Moss Family Trust. One of these notes is for \$618,000. and the other for \$257,500. They are secured by 100,000 shares and 40,000 shares of Tri-Valley unregistered, restricted common stock, respectively. The terms on both notes are an interest rate of 12.0% per annum, amortized over five years with monthly payments of \$13,747.07 and \$5,727.95, respectively. The adequacy of the collateral coverage is reviewed at the end of each loan year and if the stock price does not support the unpaid balance, additional stock is required to be pledged. The purpose of the notes was to assure timely funds to hold, acquire and refurbish production rigs while more complete capital was being raised.

The third promissory note was issued to F. Lynn Blystone and Patricia L. Blystone in the amount of \$150,000. Mr. Blystone is the President and Chief Executive Officer of Tri-Valley Corporation. The note is to be paid on an interest only basis of 1.0% per month and to be paid in full on or before March 21, 2007. The note is secured by a six percent (6%) overriding royalty interest in the Temblor Valley production. The purpose was to provide interim funding for increased bonding requirements with the California Division of Oil, Gas and Geothermal Resources resulting from the acquisition of more wells by the Company.

NOTE 5 - CHANGES IN SECURITIES

During the first quarter of 2006, we issued 357,175 shares of common stock. Two employees exercised employee stock options issued in previous years to purchase 152,000 shares of common stock totaling \$159,000. The Company pledged 140,000 common shares as security on two notes payable. The remaining 65,175 shares were issued in private placements at a price of \$8.00 per share, for a total consideration of \$521,400. Total stock issuance cost for the first quarter was \$62,568.

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Review

Notice Regarding Forward-Looking Statements

This report contains forward-looking statements. The words, "anticipate," "believe," "expect," "plan," "intend," "estimate," "project," "could," "may," "foresee," and similar expressions are intended to identify forward-looking statements. These statements include information regarding expected development of Tri-Valley's business, lending activities, relationship with customers, and development in the oil and gas industry. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove incorrect, actual results may vary materially and adversely from those anticipated, believed, estimated or otherwise indicated.

Petroleum Activities

The petroleum activities during the first quarter of 2006, were all activities of planning and positioning for execution of future operations. As of December 31, 2005, Tri-Valley closed on its Temblor Valley Purchase consisting of 57 wells in South Belridge and Edison Fields in Kern County, California. The quarter was consumed transferring all the normal and governmental paperwork over to Tri-Valley, while simultaneously planning the start of reworking and returning 25 wells to production during the second quarter and the planning of drilling several core wells to evaluate the optimum approach for development. The same activities occurred on the Pleasant Valley Project and the Moffat Ranch Project. The Moffat Ranch Project efforts were restricted because of limited availability of downhole equipment and limited availability of a drilling rig and production/ workover rigs. Drilling on both the Moffat Ranch and Pleasant Valley Projects is expected to occur during the second quarter.

To help solve the existing industry wide equipment shortage problem, Tri-Valley took delivery of its first two production/workover rigs through its Great Valley Production Services, LLC subsidiary. Rig #103 is a 103 foot high "double" with a 212,000 pound pulling capacity. Rig #60 is a 60-foot high, "single" with a 120,000 pound pulling capacity. All of the associated equipment is assembled to work these rigs. One crew was assembled in May for Rig #60 and has commenced rework on the Temblor Project, and Rig #103 is planned to be crewed and to start drilling 4,000 foot core wells in July 2006.

A third rig, Rig #105, a 105 foot high "double" with a 250,000 pound pulling capacity, was in the process of being remanufactured during the last portion of the first quarter. Delivery is expected to occur in the second quarter. Two more rigs, Rigs #96A & #96B, were also purchased for remanufacturing to be put into the fleet upon their completion toward the end of 2006. Because these rigs all have the newest engines and other improvements including digital controls, they are actually better than when they were new.

Tri-Valley also exercised an option to purchase an existing drilling rig currently owned by Equipment 2000 with headquarters in Fallon, Nevada. The rig is capable of drilling to 8,000 feet with 4-1/2" drill

pipe and approximately 10,000 feet with 3-1/2" drill pipe. The transaction is expected to be finalized once the rig has fulfilled its current obligations, which is expected to occur about June 2006. This drilling rig will be operated under a newly created subsidiary, Great Valley Drilling Co., LLC. The current owner of Equipment 2000 will become the General Manager of Great Valley Drilling Co., LLC and all crews and personnel will be transferring over to Great Valley Drilling Co., LLC. In addition to Tri-Valley's own inventory of prospects to be drilled (the rig is also certified for California operation) Nevada is becoming of increasing interest for exploration due to the large number of structural traps. Tri-Valley believes there are more than ample projects for the rig and crews.

The tactical reason for purchasing the rig fleet is to enable Tri-Valley to work on its growing inventory of wells

10

and drill new ones as needed rather than be delayed for months or even a year because of unavailability of contractor supplied rigs. The strategic reason is that as other property owners experience delays in timely service of their wells and production begins to decline they will tend to want to sell and the only logical bidders will be the few companies like Tri-Valley with the equipment to service additional properties.

Mining Activities

Precious Metals

Mineral exploration programs in the first quarter consisted largely of completion of the 2005 work programs and compilation of the results in annual reports on three properties: Richardson and Shorty Creek in Alaska, and Typhoon in Yukon Territory, Canada.

The 2005 Richardson program included extensive compilation and reprocessing of existing public and private data for the entire property, and soil sampling and drilling on the Democrat Prospect within the Richardson Property. All activities on the property were completed by the end of the fourth quarter. Results of the soil sampling program completed in the third quarter resulted in the drilling of an eight-hole, diamond drilling program totaling 3,052 feet, testing altered quartz-feldspar-porphyry ("QFP") hosted gold targets over a segment of the Richardson lineament, including the bottom of the Democrat Mine pit area. QFP is the main host for gold mineralization at this area of the property. Two holes tested the Camp Pit area, five holes were drilled in the Democrat Mine area and one hole in the Democrat Pup area. The drilling was completed by mid-December. In the first quarter of 2006, assays of the drilling were completed resulting in seven of the eight holes in gold mineralization, with the best hole, RI05-03 intersecting the grades of 1.5 ppm Au (1.5 gram) with 1.3 opt Ag over a 38 foot interval (20.0 feet to 58.0 feet). High values include 3.0 ppm Au over a 3 foot interval (33.0 feet to 36.0 feet) and 4.5 opt Ag over a 6 foot interval (52.0 feet to 58.0 feet), and hole RI05-03 cut the highest silver grade encountered at 17.9 opt Ag over a 3 foot interval (168.5 feet to 171.5 feet). All five holes in the Democrat Mine area ended in altered and mineralized QFP indicating a much larger intrusive system. Additional work completed in the first quarter consisted of the compilation and assessment of the geochemical, geophysical and drilling data and the completion of the 2005 annual report on the property.

The Shorty Creek and Typhoon programs consisted of the final assessment of the data collected in the third and fourth quarters of 2005 and the completion of the annual reports on those properties.

At Shorty Creek, Select Resources completed a top-of-bedrock soil auger geochemical sampling program covering a 2.3 square kilometer portion of the property defined as anomalous by past exploration. A total of 566 soil samples were collected on a 50 meter by 100 meter grid. Highly anomalous concentration of gold, copper, silver and other indicator elements were found.

The area of anomalous soil geochemistry is essentially coincident with one of the prominent aeromagnetic highs. On satellite imagery, the area also appears as a distinct vegetation anomaly. This anomaly - the Hill 1835 Anomaly - covers one of four very prominent magnetic highs within the claim area. Scattered reconnaissance rock chip and stream sediment geochemical samples from the other areas indicate that they too are geochemical anomalies. Because of these features, the Hill 1835 Anomaly is a prominent target for further exploration at Shorty Creek, as well as the other three magnetic highs within the claim area.

Industrial Minerals

Ian Chapman joined Select Resources as Vice-President in charge of Industrial Mineral operations, and Executive Director of the Tri-Western Resources, LLC, joint venture (50% owned and managed by Select Resources).

During the first quarter, Tri-Western Resources went into limited production of cinders from its boron facilities. Cinders are used as road treatment material for winter weather conditions and as decorative stone products. In addition, the boron basalt plant was completed and was awaiting its final air permits (awarded in April 2006) prior to the initiation of production from the facility. During this period the boron facility passed its Mine Safety and Health Administration inspection, required for the commencement of operations. Basalt production is

11

expected to begin in the second quarter of 2006. Revenue generation has begun in the second quarter.

Limited work associated with permitting activities was undertaken on the Monarch calcium carbonate property in California, a Tri-Western Resources project, during the first quarter of 2006. We expect mining operations will begin to relieve the need for Select Resources to fund Tri-Western operations, with positive cash flow from the mine anticipated in the second half of fiscal 2006.

No work was undertaken on the Admiral Calder calcium carbonate mine in Alaska (100% owned and managed by Select Resources) during the first quarter of 2006.

Results of Operations

For the quarter ended March 31, 2006, revenue was \$369,765, compared to \$202,108 in the first quarter of 2005. We had an operating loss of about \$3.064 million in the first quarter of 2006, compared to a loss of \$3.375 million in the first quarter of 2005. Non-cash amounts included in the loss for the first quarter is

depreciation, depletion and amortization of \$275,049 and impairment write-off of \$458,564.

The Company's revenues from the sale of oil and gas increased from \$169,126 in the first quarter of 2005 to \$318,722 in the first quarter of 2006. This increase was due to acquisitions of oil producing properties and price increases.

Other income increased from \$9,649 in the first quarter of 2005 to \$44,186 in the first quarter of 2006, this was due to the increase in the overhead we charged for the producing wells due to the increase in the number of the producing wells we service. Interest income decreased from \$23,333 in the first quarter of 2005 to \$6,857 in the same period of 2006, because we held less cash in the first quarter of 2006 compared to the same period of 2005. Oil and gas lease expense increased from \$20,215 in the first quarter of 2005 to \$57,414 in the same period of 2006 as we incurred new expenses to operate the wells we acquired at the end of 2005. Drilling and development expenses decreased from \$192,407 in the first quarter of 2005 to \$42,561 in the first quarter of 2006, reflecting a decrease in our drilling activities. Depletion, depreciation and amortization increased from \$19,376 in the first quarter of 2005 to \$275,049 in the same period of 2006, in light of increased property and equipment values from acquisitions.

Costs and expenses were approximately \$3.4 million (4%) less in the first quarter of 2006 than in the same period in 2005. We spent \$1,196,490 on mining exploration in the first quarter of 2006 which was \$1.02 million dollars less than the same period in 2005. The 2005 expenses were higher because of start-up costs for our industrial mineral operations and expenditures to acquire royalty interests in our gold mining claims. We also recognized impairment losses of \$458,564, primarily on the write-off of our Webb #1 Blowout and Tracy Subthrust. During our regular evaluation of our prospects, we determined that these properties are no longer viable.

General and administrative costs totaled \$1,222,213 increased by \$75,585 (7%) from the first quarter in 2005, due to general price increases and the continuing support of the industrial minerals joint venture to achieve production/revenue status which now the case. With the advent of production both from oilfield development and the industrial minerals joint venture, the Company looks to greatly reduce its operating loss in the second half of 2006.

Capital Resources and Liquidity

In 2002 through 2005, our drilling activities have been largely funded by selling interests in our OPUS I drilling partnership. We do not borrow to fund drilling activities. Our continued drilling activity relies on our ability to raise money for projects through drilling partnerships or other joint ventures.

Current assets were about \$5.7 million at March 31, 2006, up slightly from \$5.3 million at year end 2005. Cash on hand was nearly the same at approximately \$4.9 million at March 31 and December 31.

Current liabilities rose to about \$8.5 million at March 31, 2006, from \$7.6 million at year end 2005, due to an increase of about \$140,000 in notes payable and an increase of about \$0.4 million in accounts payable and

accrued expenses. Amounts payable to joint venture participants also increase by about \$218,000.

Operating Activities

We had a negative cash flow of \$1,913,769 for the three months ended March 31, 2006 compared to a positive cash flow of \$4,457,403 for the same period in 2005, negative cash flow in the current period is due mainly to our loss from operations. Our loss from operations was approximately \$3.064 million for the three months ended March 31, 2006 compared to \$3.375 million for the same period in 2005.

The largest component of positive cash flow in the first quarter of 2005 was receipt of advances of more than \$6 million from joint venture participants for future drilling operations, which far exceeded advances received in the first quarter of 2006. These do not contribute to operating revenues at the time received but are held in cash until expended in drilling and operations. We cannot predict the levels at which we will continue to receive funds for additional drilling, and in the past we have experienced wide swings in receipt of these funds from quarter to quarter. We do not commit to drilling activities unless and until we have sufficient advances in hand to fund a particular project.

Investing Activities

Cash used in investing activities was \$499,044 for the first three months of 2006. \$348,360 was used towards the purchase of the new rigs for Great Valley Production, \$38,564 was invested in buildings and equipment for Select Resources and the remainder was for the acquisitions of prospects for Tri-Valley Oil and Gas.

Financing Activities

Net cash provided by financing activities was \$2,340,569 for the first quarter. We received \$486,066 from sales of restricted shares of common stock in privately negotiated transactions including the exercise of stock options by employees. We received \$748,000 from the sale of membership units in the Great Valley Drilling Company, LLC. We received \$1,268,755 in proceeds from issuance of long-term debt and used \$214,312 to pay down principal on long-term debt. We expect to use these funds for working capital. We have not planned any private placement of equity securities for the remainder of 2006, but we may continue to receive funds from privately negotiated transactions. We do not have a targeted or budgeted amount of equity financing activities. In the first quarter of 2005, the net cash provided by financing activities was \$1,112,302 from sales of restricted shares of common stock in privately negotiated transactions.

Liquidity

During 2006, we expect to expend approximately \$10 million on drilling activities. Funds for these activities will be provided by sales of partnership interests in the Opus I drilling partnership. If the sales of partnership interests are not adequate, our drilling activities will be scaled back to an appropriate level to fund the adjusted balance of our drilling activities for 2006. We have not yet planned our proposed prospect drilling and development activities for 2007.

In 2006, we expect to spend approximately \$0.6 million on continuing mining lease obligations in Alaska and \$1.4 million to improve the production capacity of Tri-Western Resources' boron mine in California. Production from the boron mine has begun on a limited basis. The last half of 2006 should see increased production which should produce positive cash flow from that mine. We had spent approximately \$1.2 million on mining lease and exploration expense in the first quarter of the year and expect approximately another \$1 million in development expenses in the remainder of the year (in addition to operating expenses), after production at the boron mine begins, to improve our production capacity.

New Accounting Pronouncements

See Note 3 to our unaudited consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Tri-Valley Corporation does not engage in hedging activities and does not use commodity futures or forward contracts in its cash management functions.

Item 4. Controls and Procedures

Disclosure Controls

As of March 31, 2006, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. These controls and procedures are based on the definition of disclosure controls and procedures in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934. Based on that evaluation, our management, including the CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2006.

Management, including our CEO and CFO, do not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. In designing and evaluating our control system, management recognized that any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and

management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any that may affect our operations have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake.

During the first quarter of 2006, there were no material changes in the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities

Between February 20 and March 23, 2006, the Company issued 65,175 shares of restricted common stock in 22 transactions with private investors at \$8.00 per share for a total of \$521,400. The prices of our common stock on the American Stock Exchange during that time period varied between \$7.55 and \$8.62 per share.

Also during the first quarter of 2006, the Company pledged 140,000 shares of restricted common stock as security for two loans totaling \$875,500. See Note 4 to the unaudited consolidated financial statements.

On March 31, 2006, \$850,000 in membership units of Great Valley Drilling Company, LLC, were sold to one private investor.

All of these transactions were conducted in reliance on the exemption from registration requirements of the Securities Act of 1933 contained in Section 4(2) of that Act.

Item 6. Exhibits

Item Description

10.1 Promissory note to F. Lynn and Patricia Blystone

31.1 Rule 13a-14(a)/15d-14(a) Certification

14

31.2 Rule 13a-14(a)/15d-14(a) Certification

32.1 18 U.S.C. Section 1350 Certification

32.2 18 U.S.C. Section 1350 Certification

Signatures

Edgar Filing: TRI VALLEY CORP - Form 10-Q/A

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRI-VALLEY CORPORATION

June 7, 2006

/s/F. Lynn Blystone

F. Lynn Blystone
President and Chief Executive Officer

June 7, 2006

/s/ Arthur M. Evans

Arthur M. Evans
Chief Financial Officer