

TRI VALLEY CORP  
Form 10-Q/A  
March 30, 2005

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

FORM 10-Q/A  
AMENDMENT NO. 1 TO  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2004

Commission File No. 0-6119

**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.)

**5555 Business Park South, Suite 200, 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 x No o

The number of shares of Registrant's common stock outstanding at June 30, 2004 was 20,267,127.

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TRI-VALLEY CORPORATION

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**PART I -****FINANCIAL INFORMATION****Item 1.****Unaudited Consolidated Financial Statements****TRI-VALLEY CORPORATION  
CONSOLIDATED BALANCE SHEETS****ASSETS**

|  | June 30, 2004<br>(Restated)<br>(Unaudited) | Dec. 31, 2003<br>(Restated)<br>(Audited) |
|--|--|--|
| Current Assets   |  |  |
| Cash   | \$6,949,798                                | \$6,006,975                              |
| Accounts receivable, trade   | 165,323                                    | 163,825                                  |
| Prepaid expenses   | 68,029                                     | 12,029                                   |
| Total Current Assets   | 7,183,150                                  | 6,182,829                                |
| Property and Equipment, Net  | 1,560,609                                  | 1,543,121                                |
| Other Assets   |  |  |
| Deposits   | 372,105                                    | 372,105                                  |
| Investments in partnerships  | 17,400                                     | 17,400                                   |
| Other  | 13,913                                     | 13,913                                   |
| Goodwill (net of accumulated amortization of \$221,439 at December 31, 2003) | 212,414                                    | 212,414                                  |
| Total Other Assets   | 615,832                                    | 615,832                                  |
| Total Assets   | \$ 9,359,591                               | \$8,341,782                              |

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

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**LIABILITIES AND SHAREHOLDERS' EQUITY**

|  | June 30, 2004<br>(Unaudited) | Dec. 31, 2003<br>(Audited) |
|--|------------------------------|----------------------------|
| <b>CURRENT LIABILITIES</b>   |                              |                            |
| Notes and contracts payable  | \$2,425                      | \$9,985                    |
| Income taxes Payable   | -                            | 39,000                     |
| Trade accounts payable & accrued expenses  | 870,180                      | 685,784                    |
| Accounts payable to joint venture participants   | 100,743                      | 91,275                     |
| Advances from joint venture participants   | 6,493,382                    | 5,647,150                  |
| <b>Total Current Liabilities</b>   | <b>7,466,730</b>             | <b>6,473,194</b>           |
| Long-term Portion of Notes and Contracts Payable   | 9,479                        | 16,805                     |
| <b>Total Liabilities</b>   | <b>7,476,209</b>             | <b>6,489,999</b>           |
| <b>Commitments</b>   |                              |                            |
| <b>Shareholders' Equity</b>  |                              |                            |
| Common stock, \$.001 par value: 100,000,000 shares authorized; 20,267,127 and 20,097,627 issued and outstanding at June 30, 2004 and Dec. 31, 2003, respectively | 20,267                       | 20,115                     |
| Less: Common stock in treasury, at cost, 100,025 shares  | (13,370)                     | (13,370)                   |
| Capital in excess of par value   | 9,727,051                    | 9,010,453                  |
| Accumulated deficit  | (7,850,566)                  | (7,165,415)                |
| <b>Total Shareholders' Equity</b>  | <b>1,883,382</b>             | <b>1,851,783</b>           |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>\$ 9,359,591</b>          | <b>\$8,341,782</b>         |

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

**TRI-VALLEY CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

|  | For the Three Months<br>Ended June 30 |             | For the Six Months<br>Ended June 30 |             |
|--|---------------------------------------|-------------|-------------------------------------|-------------|
|  | 2004<br>(restated)                    | 2003        | 2004<br>(restated)                  | 2003        |
| Revenues   |                                       |             |                                     |             |
| Sale of oil and gas                                | \$194,849                             | \$203,408   | \$422,268                           | \$470,055   |
| Other income                                       | 24,318                                | 14,460      | 37,811                              | 21,073      |
| Sale of oil & gas prospects                        | 909,500                               | 968,000     | 2,054,500                           | 968,000     |
| Interest income                                    | 6,243                                 | 4,503       | 6,612                               | 8,023       |
| Total Revenues                                     | 1,134,910                             | 1,190,371   | 2,521,191                           | 1,467,151   |
| Cost and Expenses                                  |                                       |             |                                     |             |
| Oil and gas lease expense                          | 58,098                                | 33,296      | 76,168                              | 89,621      |
| Mining exploration expenses                        | 765,556                               | 32,580      | 804,177                             | 62,887      |
| Project geology, geophysics, land & administration | 799,860                               | 908,622     | 1,240,079                           | 1,197,641   |
| Depletion, depreciation and amortization           | 7,233                                 | 7,233       | 14,466                              | 14,466      |
| Interest   | 6,248                                 | 667         | 32,540                              | 1,380       |
| General administrative                             | 438,324                               | 360,156     | 1,038,912                           | 674,745     |
| Total Cost and Expenses                            | 2,075,319                             | 1,342,554   | 3,206,342                           | 2,040,741   |
| Net Income (Loss)                                  | \$(940,409)                           | \$(152,183) | \$(685,151)                         | \$(573,590) |
| Basic & Diluted Earnings per Share                 | \$(.05)                               | \$(.01)     | \$(.03)                             | \$(.03)     |
| Weighted Average Number of Shares                  | 20,213,460                            | 19,786,014  | 20,156,543                          | 19,786,014  |

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

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

|   | For the Six Months<br>Ended June 30, |                    |
|---|--------------------------------------|--------------------|
|   | 2004                                 | 2003               |
|   | (restated)                           |                    |
| <b>Cash Flows from Operating Activities</b>   |                                      |                    |
| Net profit/(loss)   | \$(685,151)                          | \$(573,590)        |
| Adjustments to reconcile net income to net cash used from operating activities:       |                                      |                    |
| Depreciation, depletion and amortization  | 14,466                               | 14,466             |
| Non-cash mining exploration expense   | 712,000                              |                    |
| Changes in operating capital:   |                                      |                    |
| Prepays-(increase)decrease  | (56,000)                             | -0-                |
| Accounts receivable-(increase)decrease  | (1,498)                              | (9,077)            |
| Trade accounts payable-increase(decrease)   | 137,836                              | 139,418            |
| Accounts payable to joint venture participants and related parties-increase(decrease) | 9,468                                | (1,849)            |
| Advances from joint venture Participants-increase(decrease)                           | 846,232                              | 3,954,994          |
| <b>Net Cash Provided/(Used) by Operating Activities</b>                               | <b>977,353</b>                       | <b>3,542,516</b>   |
| <b>Cash Flows Provided/(Used) by Investing Activities</b>                             |                                      |                    |
| Capital expenditures  | (31,954)                             | (138,708)          |
| <b>Cash Flows from Financing Activities</b>   |                                      |                    |
| Principal payments on long-term debt  | (7,326)                              | (18,306)           |
| Proceeds from issuance of common stock  | 4,750                                | 104,200            |
| <b>Net Cash Provided/(Used) by Financing Activities</b>                               | <b>(2,576)</b>                       | <b>85,894</b>      |
| <b>Net Increase in Cash and Cash Equivalents</b>                                      | <b>942,823</b>                       | <b>3,489,702</b>   |
| Cash and Cash Equivalents at Beginning of Period                                      | 6,006,975                            | 1,936,294          |
| <b>Cash and Cash Equivalents at End of Period</b>                                     | <b>\$6,949,798</b>                   | <b>\$5,425,996</b> |
| <b>Supplemental Information:</b>  |                                      |                    |
| Cash paid for interest  | \$32,540                             | \$1,380            |
| Cash paid for taxes   | \$5,169                              | \$5,446            |

During the six months ended June 30, 2004, Tri-Valley issued \$712,000 (160,000 shares) of common stock in exchange for mineral interests purchased from two individuals (80,000 shares each) interest in the Richardson Alaska Gold mining claims, which was recorded as mining exploration expense in the Statement of Operations.

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**  
**June 30, 2004 AND 2003**  
(Unaudited)

**NOTE 1 - BASIS OF PRESENTATION**Business and Restatement

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 June 30, 2004, 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; and, therefore, should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

**NOTE 2 - RESTATEMENTS OF PRIOR FINANCIAL INFORMATION**

Amendment No. 1 on Form 10-Q/A of the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2004 includes unaudited restated financial information for the three months ended June 30, 2004 and 2003. The original Form 10-Q was filed with the Securities and Exchange Commission on August 13, 2004. The purpose of the Amendment is to restate the Company's previously reported financial information for the three months ended March 31, 2004 due to change in its revenue recognition policy relating to turnkey drilling revenue.

The Company receives monies from third parties who participate in drilling oil and gas wells and had previously recognized revenue and associated costs when the drilling began, as long as drilling was completed by close of books based on accrual accounting, due to the fact that the monies received was nonrefundable. The Company changed its accounting policy in December 2003 to recognize turnkey revenue and associated costs when oil or gas well is drilled to a target depth and/or logged. As the result of this change, drilling revenue and related costs decreased in third and fourth quarters of 2003, and increased in the first quarter of 2004. The Company restated its 2003 financial statements.

The material effect of the restatement resulting from this accounting policy change as of and for the three months ended June 30, 2004 is as follows:

|  | As Previously<br>Reported<br>(unaudited) | Adjustments  | As<br>Restated<br>(unaudited) | Reference |
|--|--|--------------|-------------------------------|-----------|
| Cost of oil and gas prospects sold   | \$ 1,241,658                             | \$ (441,798) | \$ 799,860                    | [1]       |
| Total Cost and Expenses  | 2,516,380                                | (441,061)    | 2,075,319                     |           |
| Net income (loss) before income tax  | (1,381,470)                              | 441,061      | (940,409)                     |           |
| Basic and diluted earnings (loss) per<br>common share and common<br>equivalent | (0.07)                                   | 0.02         | (0.05)                        |           |



**NOTE 2 - RESTATEMENTS OF PRIOR FINANCIAL INFORMATION (Continued)**

|   | As Previously<br>Reported<br>(unaudited) | Adjustments      | As<br>Restated<br>(unaudited) | Reference |
|---|--|------------------|-------------------------------|-----------|
| Prepaid expenses                                  | \$ 12,029                                | \$ 56,000        | \$ 68,029                     | [2]       |
| Total Current Assets                              | 7,127,119                                | 56,031           | 7,183,150                     |           |
| <b>Total Assets</b>                               | <b>9,297,954</b>                         | <b>61,637</b>    | <b>9,359,591</b>              |           |
| Accounts payable & accrued expenses               | 841,613                                  | 28,567           | 870,180                       | [3]       |
| Advances from joint venture participants          | 6,937,146                                | (443,764)        | 6,493,382                     |           |
| Total Current Liabilities                         | 7,881,927                                | (415,197)        | 7,466,730                     |           |
| Total liabilities                                 | 7,891,406                                | (415,197)        | 7,476,209                     |           |
| Accumulated deficit                               | (8,327,400)                              | 476,834          | (7,850,566)                   | [4]       |
| Total Shareholders' Equity                        | 1,406,548                                | 476,834          | 1,883,382                     |           |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>\$ 9,297,954</b>                      | <b>\$ 61,637</b> | <b>\$ 9,359,591</b>           |           |

The restatements were due to the following changes:

1. The cost of drilling was restated for the amount which was recognized in the first quarter of 2004.
2. The adjustment represents capitalization of expenditure previously expensed.
3. The amount represents miscellaneous expenses erroneously omitted from accrual in previously reported liabilities
4. The accumulated deficits were revised mainly to reflect the decrease in costs of oil and gas prospects sold.

The restatements did not affect cash flow statement and statement of operations for the sixth months ended June 30, 2004

**NOTE 3 - 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 4 - RECENT ACCOUNTING PRONOUNCEMENTS**

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). Under SFAS 143, the fair value of a liability for an asset retirement obligation should be recorded in the period in which it is incurred. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss if the settled amount differs from the liability recorded. SFAS 143 is effective for fiscal years beginning after June 15, 2002. We have evaluated this guidance and have determined this will not have a material impact on our financial position, results of operations, or net cash flows.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 addresses the financial accounting and reporting for costs associated with exit or disposal activities. SFAS 146 states that a liability for a cost associated with an exit or disposal activity shall be recognized and

measured initially at its fair value in the period when the liability is incurred. A liability is established only when present obligations to others are determined. SFAS 146 does not apply to costs associated with the retirement of long-lived assets covered in SFAS 143 (see above). It applies to a cost associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS 144 (see above). We will apply SFAS 146 for exit or disposal activities initiated after December 31, 2002. We have evaluated this guidance and do not believe that it will have a material impact on our financial position, results of operations, or net cash flows.

## **NOTE 5 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### 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 the Company'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

In early May 2004 a workover rig was moved in on Elk Ridge # 1-20 to artificially fracture the Hay Sand formation. The work was completed successfully; however, we were not able to get commercial production. We are working on several stimulation concepts to hopefully obtain commercial rates.

During April 2004 the Company continued work on the Oil Lake well. The well has not responded with commercial production and is currently idle.

### Petroleum Activities (Continued)

The Oil Creek prospect was determined to be no longer a viable prospect. However, the results of data analysis did identify a new prospect, the Los Gatos Creek Prospect. The Oil Creek well will be retained for a potential water disposal well in the event the Los Gatos Creek Prospect results in a new field discovery.

On June 28, 2004, a test frac was done on the EKHO #1 as a planning and design procedure to obtain data for what will be a main frac. It appears this will be conducted in September.

Current plans are to bring in a production/workover rig and (1) fish the tubing out of the Martins-Severin #3 and either return it to production from the currently sanded-up zone or to recomplete into one of the three remaining zones in the well and to fracture the Martins-Severin #6 to both stimulate production and remediate the sanding problems.

On the Pimental #1-15 we intend to hydraulically fracture stimulate the Ragged Valley Sands to achieve commercial rates. These sands have never been effectively produced in this Tracy Gas Field. This work is scheduled to be done sometime in August.

### Precious Metals Activities

An independent geologist visited our claim block in Alaska to view the work that has been performed to date. This visit qualifies his independent report to be used for U.S and Canadian stock exchange financings. This is part of the procedure to continue our efforts to successfully spin-off our Richardson, Alaska gold project into a new, stand alone mining Company.

In the second quarter, we repurchased two mineral interests in the Richardson gold mining claims which we had sold to third parties in 1998 in order to consolidate our interests in this property.

Three Months Ended June 30, 2004 As Compared With Three Months Ended June 30, 2003

In the quarter ended June 30, 2004, revenue was \$1,134,910 compared to \$1,190,371 for the same quarter in 2003. This decrease resulted from reduced gas production due to certain wells being shut in for workovers and reduced revenue from sales of prospects.

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**NOTE 5 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Three Months Ended June 30, 2004 As Compared With Three Months Ended June 30, 2003 (Continued)

Costs and expenses increased \$732,765 for the period ending June 30, 2004, compared to the same period in 2003. Oil & gas lease expenses were \$24,802 higher this quarter due to work performed on some of our producing wells. We repurchased mineral interests on our Richardson, Alaska, gold mining claims which we had sold to third parties in 1998, resulting in a \$732,976 increase in mining exploration expenses, compared to the same period last years. Project geology, geophysics, land and administration expenses were \$108,762 lower for the quarter ended June 30, 2004, compared to the same quarter in 2003. This decrease was due to our writing off costs of the EKHO Prospect that had previously been capitalized. General and administration costs were \$78,168 higher for the quarter ended June 30, 2004, compared to the same quarter in 2003. The decrease was due to expensing \$31,558 of remaining costs of our litigation with Armstrong Petroleum (see Part II, Item I) and additional insurance costs.

For the quarter ended June 30, 2004, we had a loss of \$940,409, compared to a loss of \$152,183 for the quarter ended June 30, 2003.

Six Months Ended June 30, 2004 As Compared To The Six Months Ended June 30, 2003

Revenue increased by \$1,054,040 during the first six months of the year compared to the same period in 2003 due to change in accounting policy of turnkey drilling revenue.

Costs and expenses were \$3,206,342 for the period ending June 30, 2004 compared to \$2,040,741 for the comparable period in 2003. Mining exploration expenses were \$741,290 higher due to expensing of mining interest we bought back on our Richardson gold mining claims. Project geology, geophysics, land and administration were \$42,438 higher due to expensing costs related to the EKHO Project. General and administrative costs were \$364,167 higher than in 2003. These increased costs were due to expenses related to the Armstrong lawsuit, a \$30,000 increase in consulting fees, higher directors and officers' liability insurance premiums and higher investor relations costs.

For the six months we had a loss of \$685,151 compared to a loss of \$573,590 for the same six month period in 2003.

Capital Resources and Liquidity

We have funded our oil and gas exploration activities primarily with proceeds raised through privately placed drilling programs. We make decisions on the amount of capital expenditures for drilling as funds become available for that purpose. We do not, as a rule, rely on borrowings to fund drilling operations or other activities.

Current assets were \$7,183,150 at June 30, 2004, compared to \$6,182,829 as of December 31, 2003. This is due to an increase of cash related to investments in our OPUS-I drilling program.

Current liabilities were \$7,466,730 for the six months ended June 30, 2004, compared to \$6,473,194 for the period ended December 31, 2003. This increase is due to advances from joint venture participants in our drilling programs for drilling activities in our limited liability drilling program, and accrued expenses related to the Armstrong lawsuit.

**OPERATING ACTIVITIES.** We had a positive cash flow of \$977,353 for the six months ended June 30, 2004 compared to a positive cash flow of \$3,542,516 for the same period in 2003. This difference is due to fewer advances from joint venture partners and our year to date operating loss. Our primary source of funds is comprised of selling prospects and oil and gas sales.

**INVESTING ACTIVITIES.** In the first six months of 2004 we had \$31,954 in capital expenditures. This was the result of lease acquisitions.

FINANCING ACTIVITIES. Net cash provided by financing activities was (\$2,576) for the six months ended June 30, 2004. This was due to payments on autos of (\$7,326) and issuance of common stock of \$4,750.

#### **NOTE 6 - 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.

#### **NOTE 7 - CONTROLS AND PROCEDURES**

As of June 30, 2004, an evaluation was performed under the supervision and with the participation of the Company's management, including the Company's CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2004. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to June 30, 2004.

#### **NOTE 8 - CHANGES IN SECURITIES**

During the second quarter of 2004, we issued 1,500 shares for aggregate consideration of \$750 (\$.50 per share) upon exercise of options by an ex-employee of the Company. We also issued 160,000 shares to two private individuals to repurchase all their right, title and interest in mining claims near Richardson, Alaska, which we had sold to them in 1998. These shares were valued at \$712,000 (\$4.45 per share), which was the closing price of our stock on the American Stock Exchange on the date of issuance. All of these shares were not registered under the Securities Act of 1933 and were sold in reliance on the exemption from registration requirements provided by Section 4(2) of that statute.

#### **NOTE 9 - COMMITMENTS AND CONTINGENCIES**

In November 2002, a judgment of \$141,500 was awarded to Armstrong Petroleum against Tri-Valley Corporation. We appealed the decision to the appellate court who ultimately confirmed the trial court's decision. In the second quarter of 2004, the California Supreme Court declined to hear our appeal. We previously expensed \$212,985, and we expensed another \$31,558 in the second quarter for a total of \$244,543. We will pay this amount in the third quarter of 2004. We had previously reserved an amount on our balance sheet under deposits which is more than sufficient to cover the costs attributable to the judgment.

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**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,” “predict,” “could,” “may,” “foresee,” and similar expressions are intended to identify forward-looking statements. These statements include information regarding expected development of the Company’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

In early May 2004 a workover rig was moved in on Elk Ridge # 1-20 to artificially fracture the Hay Sand formation. The work was completed successfully however; we were not able to get commercial production. We are working on several stimulation concepts to hopefully obtain commercial rates.

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The Oil Creek prospect was determined to be no longer a viable prospect. However, the results of data analysis did identify a new prospect, the Los Gatos Creek Prospect. The Oil Creek well will be retained for a potential water disposal well in the event the Los Gatos Creek Prospect results in a new field discovery.

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Current plans are to bring in a production/workover rig and (1) fish the tubing out of the Martins-Severin #3 and either return it to production from the currently sanded-up zone or to recomplete into one of the three remaining zones in the well and to fracture the Martins-Severin #6 to both stimulate production and remediate the sanding problems.

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Precious Metals Activities

An independent geologist visited our claim block in Alaska to view the work that has been performed to date. This visit qualifies his independent report to be used for U.S and Canadian stock exchange financings. This is part of the procedure to continue our efforts to successfully spin-off our Richardson, Alaska gold project into a new, stand alone mining company. In the second quarter, we repurchased two mineral interests in the Richardson gold mining claims which we had sold to third parties in 1998 in order to consolidate our interests in this property.

**Item 2.**

**(Continued)**

Three Months Ended June 30, 2004 as compared with Three Months ended June 30, 2003

In the quarter ended June 30, 2004, revenue was \$1,134,910 compared to \$1,190,371 for the same quarter in 2003. This decrease resulted from reduced gas production due to certain wells being shut in for workovers and reduced revenue from sales of prospects.

Costs and expenses increased \$732,765 for the period ending June 30, 2004, compared to the same period in 2003. Oil & gas lease expenses were \$24,802 higher this quarter due to work performed on some of our producing wells. We repurchased mineral interests on our Richardson, Alaska, gold mining claims which we had sold to third parties in 1998, resulting in a \$732,796 increase in mining exploration expenses, compared to the same period last year. Project geology, geophysics, land and administration expenses were \$108,762 less for the quarter ended June 30, 2004, compared to the same quarter in 2003. This decrease was due to reduced prospect generation. General and administrative costs were \$78,168 higher for the quarter ended June 30, 2004, compared to the same quarter in 2003. The increase was due to expensing \$31,558 of remaining costs of our litigation with Armstrong Petroleum (*see Part II, Item I*) and additional insurance costs.

For the quarter ended June 30, 2004, we had a loss of \$940,409, compared to a loss of \$152,183 for the quarter ended June 30, 2003.

Six Months ended June 30, 2004 as compared to the Six Months ended June 30, 2003

Revenue increased during the first six months of the year compared to the same period in 2003 due to turnkey drilling of the Elk Ridge well.

Costs and expenses were \$3,206,342 for the period ending June 30, 2004 compared to \$2,040,741 for the comparable period in 2003. Mining exploration expenses were \$741,290 higher due to expensing of mining interest we bought back on our Richardson gold mining claims. Project geology, geophysics, land and administration were \$42,438 higher due to expensing costs related to the EKHO Project. General and administrative costs were \$364,167 higher than in 2003. These increased costs were due to expenses related to the Armstrong lawsuit, a \$30,000 increase in consulting fees, higher directors and officers liability insurance premiums and higher investor relations costs.

For the six months we had a loss of \$685,151 compared to a loss of \$573,590 for the same six month period in 2003.

Capital Resources and Liquidity

We have funded our oil and gas exploration activities primarily with proceeds raised through privately placed drilling programs. We make decisions on the amount of capital expenditures for drilling as funds become available for that purpose. We do not, as a rule, rely on borrowings to fund drilling operations or other activities.

Current assets were \$7,183,150 at June 30, 2004, compared to \$6,182,829 as of December 31, 2003. This is due to an increase of cash related to investments in our OPUS-I drilling program.

Current liabilities were \$7,476,209 for the six months ended June 30, 2004, compared to \$6,489,999 for the period ended December 31, 2003. This increase is due to advances from joint venture participants in our drilling programs for drilling activities in our limited liability drilling program, and accrued expenses related to the Armstrong lawsuit.

**Operating Activities.** We had a positive cash flow of \$977,353 for the six months ended June 30, 2004 compared to a positive cash flow of \$3,542,516 for the same period in 2003. This difference is due to less advances from joint venture partners and our year to date operating loss. Our primary source of funds is comprised of selling prospects and oil and gas sales.

**Investing Activities.** In the first six months of 2004 we used \$31,954 in capital expenditures. This was the result of lease acquisitions.

**Financing Activities.** Net cash provided by financing activities was (\$2,576) for the six months ended June 30, 2004. This was due to payments on autos of (\$7,326) and issuance of common stock of \$4,750.

### **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**

As of June 30, 2004, an evaluation was performed under the supervision and with the participation of the Company's management, including the Company's CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2004. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to June 30, 2004.

## **PART II -**

## **OTHER INFORMATION**

### **Item 1. Legal Proceedings**

In November 2002, a judgment of \$141,500 was awarded to Armstrong Petroleum against Tri-Valley Corporation. We appealed the decision to the appellate court who ultimately confirmed the trial court's decision. In the second quarter of 2004, the California Supreme Court declined to hear our appeal. We previously expensed \$212,985, and we expensed another \$31,558 in the second quarter for a total of \$244,543. We will pay this amount in the third quarter of 2004. We had previously reserved an amount on our balance sheet under deposits which is more than sufficient to cover the costs attributable to the judgment.

### **Item 2. Changes in Securities**

During the second quarter of 2004, we issued 1,500 shares for aggregate consideration of \$750 (\$.50 per share) upon exercise of options by an ex-employee of the Company. We also issued 160,000 shares to two private individuals to repurchase all their right, title and interest in mining claims near Richardson, Alaska, which we had sold to them in 1998. These shares were valued at \$712,000 (\$4.45 per share), which was the closing price of our stock on the American Stock Exchange on the date of issuance. All of these shares were not registered under the Securities Act of 1933 and were sold in reliance on the exemption from registration requirements provided by Section 4(2) of that statute.

### **Item 6.**

#### **Exhibits**

##### **(a) Exhibits**

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

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

32.1 18 U.S.C. § 1350 Certification



32.2 18 U.S.C. § 1350 Certification

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**SIGNATURES**

Pursuant to the requirement 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

March 28, 2005

/s/ F. Lynn Blystone  
F. Lynn Blystone  
President and Chief Executive Officer

March 28, 2005

/s/ Thomas J. Cunningham  
Thomas J. Cunningham  
Secretary, Treasurer, Chief Financial Officer

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**Exhibit 31.1**

I, F. Lynn Blystone, President and Chief Executive Officer of Tri-Valley Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tri-Valley Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2005

/s/F. Lynn Blystone  
F. Lynn Blystone, President and Chief  
Executive Officer

**Exhibit 31.1**

I, Thomas J. Cunningham, Chief Financial Officer of Tri-Valley Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tri-Valley Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2005

/s/Thomas J. Cunningham  
Thomas J. Cunningham, Chief Financial  
Officer

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**Exhibit 32.1**

**Certification Pursuant to 18 U.S.C. § 1350**

The undersigned, F. Lynn Blystone, President and Chief Executive Officer of Tri-Valley Corporation, a Delaware corporation (the "Company"), pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, hereby certifies that:

- (1) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 28, 2005

/s/F. Lynn Blystone  
F. Lynn Blystone, President and Chief  
Executive Officer

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**Exhibit 32.2**

**Certification Pursuant to 18 U.S.C. § 1350**

The undersigned, Thomas J. Cunningham, Chief Financial Officer of Tri-Valley Corporation, a Delaware corporation (the "Company"), pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, hereby certifies that:

- (1) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 28, 2005

/s/Thomas J. Cunningham  
Thomas J. Cunningham, Chief Financial  
Officer