TRI VALLEY CORP
Form 10-Q
November 09, 2005

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 September 30, 2005	Commission File No. 001-31852

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

Delaware	**84-0617433**
(State or other jurisdiction of Incorporation or organization)	(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

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

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 September 30, 2005 was 22,584,969.

TRI-VALLEY CORPORATION

INDEX

PART I - **FINANCIAL INFORMATION**

Item 1. **Unaudited Consolidated Financial Statements**

TRI-VALLEY CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30 2005 (Unaudited)	December 31 2004 (Audited)
Current Assets		
Cash	$ 10,388,469	$ 11,812,920
Accounts receivable, trade	326,356	192,008
Accounts receivable, related parties	146,155	0
Advance receivable	171,448	150,000
Prepaid expenses	98,529	96,056
Total Current Assets	11,130,957	12,250,984
Property and Equipment, Net	11,220,281	1,778,208
Other Assets		
Deposits	422,177	200,407
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	665,904	444,134
Total Assets	$ 23,017,142	$ 14,473,326

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

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30 2005 (Unaudited)	December 31 2004 (Audited)
CURRENT LIABILITIES		
Current portion notes and contracts payable	$ 187,116	$ 9,985
Trade accounts payable & accrued expenses	950,725	1,237,848
Accounts payable to joint venture participants	202,422	100,115
Advances from joint venture participants	7,429,388	6,321,676
Total Current Liabilities	8,769,651	7,669,624
Long-term Portion of Notes and Contracts Payable	4,934,198	6,799
Total liabilities	13,703,849	7,676,423
Shareholders' Equity		
Common stock, $.001 par value: 100,000,000 shares authorized; 22,584,969 and 21,836,052 issued and outstanding at Sept 30, 2005 and Dec. 31, 2004, respectively	22,585	21,836
Less: Common stock in treasury, at cost, 100,025 shares	(13,370)	(13,370)
Subscription receivable	-	(750)
Capital in excess of par value	22,079,222	15,125,607
Accumulated deficit	(12,775,144)	(8,336,420)
Total Shareholders' Equity	9,313,293	6,796,903
Total Liabilities and Shareholders' Equity	$ 23,017,142	$ 14,473,326

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

TRI-VALLEY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2005	2004	2005	2004
Revenues				
Sale of oil and gas	$ 207,855	$ 193,537	$ 569,045	$ 615,805
Other income	11,985	14,863	34,817	52,674
Drilling and development	6,527,500	0	8,132,500	2,054,500
Interest income	34,234	14,606	93,950	21,218
Total Revenues	6,781,574	223,006	8,830,312	2,744,197
Cost and Expenses				
Oil and gas lease expense	27,586	25,712	65,278	101,880
Mining lease expense	660,763	-0-	1,022,616	-0-
Mining exploration expenses	416,042	46,411	2,660,252	850,588
Drilling and development	4,805,801	197,900	6,025,294	1,437,979
Depletion, depreciation and amortization	86,452	7,233	136,054	21,699
Interest	43,865	421	55,061	32,961
General administrative	1,086,997	424,433	3,304,480	1,463,345
Total Cost and Expenses	7,127,506	702,110	13,269,035	3,908,452
Net Income (Loss)	$ (345,932)	$ (479,104)	$ (4,438,723)	$ (1,164,255))
Basic & Diluted Earnings per Share	$ (.02)	$ (.02)	$ (.20)	$ (.06))
Weighted Average Number of Shares	22,563,969	20,703,935	22,427,713	20,430,239

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

TRI-VALLEY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended September 30 2005	2004
Cash Flows from Operating Activities		
Net profit/(loss)	$ (4,438,723)	$ (1,164,255)
Adjustments to reconcile net income to net cash used from operating activities:		
Depreciation, depletion and amortization	136,054	21,699
Non-cash mining exploration expense	2,309,700	712,000
Changes in operating capital:		
Prepaids-(increase) decrease	(2,473)	(56,000)
Deposits-(increase) decrease	(221,770)	
Accounts receivable-(increase)decrease	(301,951)	21,545
Trade accounts payable-increase(decrease)	(287,123)	(330,675)
Accounts payable to joint venture		
participants and related parties-increase(decrease)	102,307	(4,257)
Advances from joint venture		
Participants-increase(decrease)	1,107,712	1,462,664
Net Cash Provided/(Used) by Operating Activities	(1,596,267)	662,721
Cash Flows Provided/(Used) by Investing Activities		
Capital expenditures	(7,114,128)	(220,903)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(52,600)	(9,852)
Issuance of long-term debt	5,157,130	
Proceeds from issuance of common stock	2,181,414	2,044,625
Net Cash Provided/(Used) by Financing Activities	7,285,944	2,034,773
Net Increase in Cash and Cash Equivalents	(1,424,451)	2,476,591
Cash and Cash Equivalents at Beginning of Period	11,812,920	6,006,975
Cash and Cash Equivalents at End of Period	$ 10,388,469	$ 8,483,566
Supplemental Information:		
Cash paid for interest	$ 55,061	$ 32,961
Cash paid for taxes	$ 17,865	$ 8,718
Non-cash investing activity:		
Common stock in exchange for prospect acquisition	$ 2,464,000	-0-

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

TRI-VALLEY CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
September 30, 2005 AND 2004
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

Description of Business
Tri-Valley Corporation ("Tri-Valley"), a Delaware corporation formed in 1971, is in the business of exploring, acquiring and developing petroleum and precious metals properties and interests. Tri-Valley has five wholly owned subsidiaries. Tri-Valley Oil & Gas Company ("TVOG") operates the oil & gas activities, and derives the majority of its revenue from sale of oil and gas properties. Select Resources Corporation, Inc. ("Select Resources"), was formed in 2004 to operate Tri-Valley's mining operations. In December 2004, Select Resources entered an agreement to form Alpha Minerals & Chemicals, LLC, which has been renamed Tri-Western Resources, LLC ("Tri-Western"), a limited liability company in which Select Resources holds a 50% interest. Neither Select Resources nor Tri-Western engaged in material transactions during 2004. Starting in 2005, Select Resources, through Tri-Western, started engaging in mining and exploration activities which have been consolidated in the accompanying financial statements. In May 2005, Tri-Valley acquired Pleasant Valley Energy Corporation, which owns undeveloped oil and gas properties. The fourth subsidiary, Tri-Valley Power Corporation, is not an operating entity. Select International Resources, Inc., a B.C. Corporation, was recently formed for potential activities outside of the United States.

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 nine-month period ended September 30, 2005, 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 Tri-Valley's Annual Report on Form 10-K/A, filed with the Securities and Exchange Commission on September 20, 2005, for the year ended December 31, 2004.

Principles of Consolidation
The accompanying financial statements are consolidated and include the financial statements of the Tri-Valley's and its majority-owned subsidiaries, and those of Tri-Western's. Tri-Valley applied FASB Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," in assessing consolidation. All significant intercompany balances and transactions have been eliminated in consolidation.

NOTE 2 - RESTATEMENTS OF PRIOR FINANCIAL INFORMATION

2004 Restatement
Amendment No. 2 on Form 10-K/A of Tri-Valley's annual report on Form 10-K for the year ended December 31, 2004 includes restated financial information for the years ended December 31, 2004 and 2003. The original Form 10-K was filed with the Securities and Exchange Commission on March 31, 2005. The purpose of the Amendment is to restate Tri-Valley's previously reported general and administrative expense to adjust downward compensation expenses due to use of an incorrect stock price in calculating the cost of issuing stock to directors as compensation.

The following sets forth the significant effects of the aforementioned restatements to Tri-Valley's consolidated financial statements for the fiscal year ended December 31, 2004:

	As Previously Reported	Adjustment	As Restated
General and administrative	2,208,457	(105,000)	2,103,457
Total cost and expenses	5,774,675	(105,000)	5,669,675
Net income (loss)	(1,276,005)	105,000	(1,171,005)
Capital in excess of par value	15,230,607	(105,000)	15,125,607
Accumulated deficit	(8,441,420)	105,000	(8,336,420)

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

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.

We expect to adopt Statement 123R for the first quarter of 2006. Statement 123R permits public companies to adopt its requirements using a “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. We plan to adopt Statement 123R using the modified-prospective method.

As permitted by Statement 123, Tri-Valley currently accounts for share-based payments to employees 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 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.

In April 2005, the Securities and Exchange Commission announced the adoption of a new rule that amends the effective date of FAS 123R. The effective date of the new standard under these new rules for Tri-Valley’s consolidated financial statements is January 1, 2006. Adoption of this statement will have a significant impact on our consolidated financial statements as we will be required to expense the fair value of our stock option grants and stock purchases under our employee stock option plan rather than disclose the impact on our consolidated net income within our footnotes, as is our current practice.

In December 2004, the FASB issued SFAS No. 153, “Exchanges of Nonmonetary Assets — An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions” (SFAS 153). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, “Accounting for Nonmonetary Transactions,” and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This standard is effective for fiscal periods beginning after June 15, 2005. We believe that the adoption of SFAS 153 will not have a material impact on our consolidated statement of income or financial condition.

The FASB issued an Exposure Draft, “Qualifying Special-Purpose Entities and Isolation of Transferred Assets—an amendment of FASB Statement No. 140.” This proposal would, among other things, change the requirements that an entity must meet to be considered a QSPE. The FASB has announced that it expects to issue in the third calendar quarter of 2005 a revised exposure draft that would include all of the proposed amendments to FASB Statement No. 140. The Company is monitoring the status of this exposure draft to assess its impact on its consolidated financial statements.

NOTE 4 - RECENT ACCOUNTING PRONOUNCEMENTS (continued)

SFAS No. 154, “Accounting Changes and Error Corrections Replaces APB Opinion No. 20, “Accounting Changes” and FASB Statement No. 3, “Reporting Accounting Changes in Interim Financial Statements”, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provision, those provisions should be followed.

Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement requires retrospective application to prior periods’ financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable.

The correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by this Statement.

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. Tri-Valley is required to adopt FIN 47 no later than December 31, 2005. Tri-Valley does not expect the adoption of FIN 47 to have a material impact on its consolidated results of operations and financial condition.

NOTE 5 - NOTE PAYABLE

Note on purchase of Admiral mine is $2 million to mature on July 15, 2015, with no interest.

NOTE 6 - SHAREHOLDERS' EQUITY

In September 2005, the Company issued 30,000 shares of common stock to an individual for his royalty interest in the Richardson Alaska project for $299,700. During the quarter ended September 30, 2005, an employee exercised options to purchase 3,000 shares of common stock for a total purchase price $1,500.

Item 2. 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 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.

Overview

As noted in our January 4, 2005, letter to shareholders, we expect to experience substantial losses as we "invested forward on several substantial projects in advance of revenue". Some of those projects are nearing production stage which should begin to build increasing revenue for the Company.

Petroleum Activities

In July 2005, TVOG drilled the Midland Trail Prospect in Nevada to total depth. We discovered six intervals with production potential. To date we have tested the bottom interval, which was watered out. We expect to test the next interval in early November.

We are making location to rework three gas wells at our Moffat Ranch East property in November 2005.

We are making development plans for the oil and gas leases owned by Pleasant Valley Energy Corporation, which we acquired in May 2005. We expect to begin development operations on these properties in December, depending on equipment availability.

On the EKHO well, we are waiting on a drilling rig to test the Santos shale just above the Vedder formation. We expect that this work will be done in the fourth quarter of 2005 and first quarter of 2006. We also continue evaluating the Sunridge Oil Prospect, drilled in the second quarter to determine whether it should be redrilled in another zone. In addition, we are continuing attempts to improve production on the Sunrise-Mayel well, which was redrilled in early 2005, but we have not yet achieved production from it in commercial quantities.

Mining Activities

Precious Metals

Exploration programs consisting largely of field sampling activities were conducted on three precious metals properties during the third quarter. The three properties are Shorty Creek in Alaska, Richardson in Alaska, and Typhoon in Yukon Territory, Canada.

The Shorty Creek program consisted of reprocessing of existing public and private data, field visits to investigate geologic features and geochemical anomalies identified in the data reprocessing, and collection of soil geochemical samples on a grid encompassing an area deemed most prospective for gold mineralization by the Select technical team. The soil sampling program covered an area of approximately 4 square kilometers; a total of 566 soil samples were collected on a 50 meter by 100 meter grid. Preliminary interpretation of the soil sampling results indicates highly anomalous amounts of gold, silver, arsenic, antimony, bismuth, tellurium, and tungsten are present in an area measuring approximately 1700 meters by 900 meters. Gold in soil values in the grid range up to 1,130 parts per billion. The association of metals in the anomalous area of the soil grid, coupled with the geologic and geophysical observations, is consistent with a model of gold deposits associated with granitic intrusives. Gold deposits of this style have been the subject of exploration and development in Interior Alaska in recent years. Examples include the Donlin Creek deposit; the Fort Knox deposit; and the Pogo deposit. Select believes the data obtained to date at Shorty Creek are sufficient to begin designing additional work on the prospect in 2006, including drilling to further evaluate the potential for commercial gold mineralization.

The Richardson program during the third quarter has 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. The soil sampling and drilling program were ongoing at the end of the third quarter. The soil sampling program is designed to collect approximately 1,100 samples within an irregular polygon approximately 1 kilometer wide and 8 kilometers long on a grid of approximately 32 sample lines, spaced 200 meters apart, with samples collected at 25 meter intervals. The soil program is designed to detect areas of mineralization along a geologic feature believed to be conducive to gold mineralization. The drilling program is planned to drill 9 holes generally within the area of the soil grid. A total of approximately 3,000 feet of core drilling is anticipated. The drilling program is designed to test for mineralization and to provide a better understanding of the controls of mineralization. Both the soil sampling program and the drilling program are expected to be completed in the forth quarter.

The Typhoon Property field program consisted of soil sampling and measurement of magnetic properties on the property to support evaluation for lode gold mineralization. The sampling was conducted on an approximately 3.7 square kilometer segment of the property encompassed by a grid measuring approximately 2,000 meters east-west and 1,850 meters north-south. Soil sampling was conducted at intervals of 50 meters along north-south lines spaced 200 meters apart. Approximately 400 soil samples were collected; field conditions precluded sample collection at a minor number of sites. Magnetic measurements were taken at intervals of 12.5 meters along soil survey lines, and were collected concurrently with the soil sampling program. Soil geochemical results and geophysical measurements will be evaluated in the fourth quarter, but suggest the possibility of a large system at depth.

Industrial Minerals

In December 2004, Select Resources entered an agreement with Trans Western Materials to form Tri-Western Resources LLC, a joint venture operated by Select Resources Corporation, to operate industrial minerals mining and processing operations. The first joint venture is to reopen the Monarch Mine in eastern Kern County, California, to supply central and southern California customers with high grade calcium carbonate. Tri-Western has also permitted and is mining specialty basalt from a deposit near Boron, California. In the third quarter, Select Resources prepared a milling plant that was purchased earlier this year for use in processing material mined from Monarch. We had expected to begin production from the mine towards the end of August, but our production schedule was delayed in order to complete necessary work on the mill. We now believe that we could begin production and delivery of basalt in November and calcium carbonate in December 2005.

In July 2005, Select Resources completed the acquisition of the Admiral Calder Mine and associated assets near Ketchikan, Alaska. The Admiral Calder Mine is a non-operating mine which has been developed to produce high-brightness calcium carbonate, which is used for fillers and pigments in paper, plastics, paint and other manufactured products, and chemical grey calcium carbonate, which is used in agriculture and smelting operations. The acquisition and the mine are described in our Current Report on Form 8-K/A filed with the SEC on September 28, 2005. Our plans to redevelop the mine are on hold while we complete other previously identified opportunities, including the precious metals claims, the Monarch Mine and the basalt mine described in the preceding paragraphs.

Results of Operations

Our total revenue for the three months and nine months ended September 30, 2005, exceeded total revenue for the same periods in 2004 by $6,558,568 and $6,086,115, respectively. The increased revenues recorded from drilling and development revenues resulted from the drilling of the Midland Trail Prospect in the third quarter. We have drilled two wells so far in 2005, compared to one well for the full year in 2004. Our total drilling revenues for the first nine months of 2005 have exceeded total drilling revenues for the first nine months of 2004 by nearly $6.1 million, and for the full year in 2004 by nearly $4.6 million. We record revenue received by us from joint ventures for drilling and development when we complete drilling wells that have been sold to venture partners, including the Opus-I drilling partnership sponsored by us. Our drilling activities are affected by factors beyond our control, such as availability of drilling equipment and delays in the regulatory permitting process to drill new wells. Unavailability of drilling equipment continues to create problems and delays in beginning projects and may curtail our drilling activity for the rest of 2005 below the level that we otherwise could comfortably manage and afford. We are addressing that problem by purchasing our own production/drilling rig.

Our oil and gas production has been lower in 2005 than in 2004, mainly because two wells that were producing during the first part of 2004 have been shut-in since late 2004 and have not produced in 2005. We plan to rework these wells to restart production in commercial quantities. Higher gas prices kept our income from oil and gas production at approximately the same level in the third quarter of 2005 as it was in 2004, though total income from the sale of oil and gas in the first nine months of 2005 was down $46,760 from the first nine months of 2004.

We receive interest on cash advances and investments from joint venture partners and others, pending expenditure of funds received on oil and gas drilling and other activities. In the third quarter we continued to receive interest income substantially in excess of prior years ($34,234 for the quarter) because we continue to receive and hold substantial advances for oil and gas investment and other projects. We expect our interest income to remain at approximately these levels for the rest of 2005, though it will fall as we expend funds on drilling projects. Interest income is a relatively insignificant part of our total income. Timing of our expenditures on drilling depends on many factors that are outside of our control, including availability of drilling equipment.

Our costs and expenses rose $6,425,396 in the third quarter over a year ago, and total costs for the nine months of 2005 were $9,360,583 higher than the nine months of 2004. The main reasons for the cost increase in the third quarter were higher oil and gas drilling project expenses due to drilling the Midland Trail Prospect ($4,805,801 in the third quarter of 2005 versus $197,900 in the third quarter of 2004) and greatly increased mining lease expense and administrative expenses generated by the start-up cost of our Select Resources mining operation. Depletion, depreciation and amortization increased $114,355. The increase reflects depreciation of newly acquired equipment and facilities for use by Tri-Western and Select for the industrial minerals activity.

Mining lease expenses in the third quarter of 2005 mainly consisted of expenses incurred in preparation and operation of the mill at the Tri-Western Monarch Mine in California. In the third quarter of 2004 we incurred no expenses for mining lease expenses because we performed no exploration work on our Alaska property, which was the only mining property we owned at the time. Mining lease expense will likely continue to increase in the rest of 2005 as mining operations begin at the Monarch Mine. Prior to the third quarter in 2005, we recorded non-cash expenses of $2.31 million from issuance of our unregistered stock to royalty owners to acquire their interest on our Richardson, Alaska properties. During the third quarter our mining exploration expenses of $416,042 consisted of geologic and engineering consulting fees for our Alaska and Yukon precious metals properties and the Monarch Mine in California. Total mining exploration expenses of $2.66 million in the first nine months of 2005 are more than double our total mining exploration expense for the full year in 2004, and Select Resources is continuing to look for additional properties to acquire. Funds to acquire additional properties would likely come from the proceeds of private equity investments in Tri-Valley by third party investors. We do not have a budget or target for a specified number or amount of mining property acquisitions in 2005 or future years and we are reviewing a variety of precious and base metal and industrial mineral submittals for additional opportunities.

Lease operating expenses in the third quarter were approximately equal to 2004. Lease expense for the nine months is down 36% from 2004 levels. Lease operating expenses may increase again in 2006 if we are successful in bringing wells drilled in 2005 into production or in reworking the shut-in wells, but it is too early to predict whether this will occur.

Interest expense has increased dramatically in the third quarter as we have engaged in long term borrowing to finance mining equipment purchases. We will continue to incur interest costs at least at the present level for the foreseeable future as we repay our long term debt.

General and administrative costs increased $1,841,135 for the nine months ended September 30, 2005, compared to the same period in 2004. The cost increases were caused by expenses related to implementation of our revised procedures for internal control over financial reporting and to continued start-up costs for Select Resources and Tri-Western, including salaries and consulting fees, insurance and fees payable under the Tri-Western operating agreement.

Our net loss from operations in the third quarter of 2005 was $345,932, compared to $479,104 in the third quarter of 2004. The loss was narrower in 2005 due to our revenues from drilling operations in the third quarter. Nevertheless, the overall costs of expanding our mining activities resulted in much higher expenses in the first nine months of 2005 than in 2004, and our overall loss from operations in the first three quarters increased to $4.44 million in 2005, compared to $1.64 million in 2004.

Financial Condition

Capital Resources and Liquidity

Current assets were $11,130,957 at September 30, 2005, compared to $12,250,984 as of December 31, 2004. This decrease is due to cash outlay for the mining operation. Accounts receivable-related parties of $146,155 is accrued rent payable from Tri-Western Resources, LLC, to our wholly owned subsidiary Select Resources Corp. Property and equipment is $9,442,073 higher at September 30, 2005, than at December 31, 2004, due to the purchase of a mill site by Select Resources for $2,500,000, purchase of the Pleasant Valley Energy Corporation for $2,964,000, and the acquisition of equipment by Select Resources and Tri-Western. We increased our deposits by $221,770 in connection with the acquisition of equipment by Select Resources and Tri-Western and purchase of two bonds required by governmental agencies for Tri-Western.

Current liabilities are $1,100,027 more as of September 30, 2005, compared to December 31, 2004 due to increases in advances from joint venture participants related to the Opus drilling partnership. Long term liabilities increased $4,927,399 as Tri-Western financed equipment and Select Resources borrowed to purchase the mill site and property discussed under MD&A - Overview - Mining Activities.- *page 10*. Tri-Valley has guaranteed repayment of this debt and believes the value of the property and facilities is substantially greater than the loan balance.

Operating Activities

We had a negative cash flow of $1,596,267 for the nine months ended September 30, 2005 compared to positive $662,721 for the same period in 2004. Our loss from operations was $4,438,723, which included non-cash expenses of $2.3 million in stock to reacquire mining royalties on our Richardson, Alaska, claim and $2.46 million in value of stock issued to acquire Pleasant Valley Energy Corp. Accounts payable decreased as we paid in connection with our drilling operations.

Investing Activities

Cash used in investing activities was $7,114,128 for the nine months of 2005. This was used for investment in plant acquisition for Select Resources and equipment for Tri-Western.

Financing Activities

Net cash provided by financing activities was $7,285,944 for the first nine months of 2005. Approximately $1.7 million of this amount consists of a Select Resources long-term secured loan entered in connection with acquisition of its California mill site for the Monarch Mine, $2 million for the acquisition of the Admiral mine and $1.4 million for Tri-Western equipment financing. The remainder was provided by sales of common stock in individually negotiated private transactions, which will be used for property acquisitions and working capital.

Item 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Tri-Valley Corporation does not engage in hedging activities and does not use commodity futures nor forward contracts in its cash management functions.

Item 4 - CONTROLS AND PROCEDURES

As of September 30, 2005, 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. These rules require that we present the conclusions of the CEO and CFO about the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report.

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.

As described in our Form 10-K for the year ended December 31, 2004, management conducted an evaluation for the effectiveness of internal control as of December 31, 2004, and concluded that Tri-Valley's internal control over financial reporting was not effective as of that date. As described below, we have instituted a remediation program to eliminate material weaknesses in our internal control over financial reporting which were identified in 2004. Our previous restatements of prior period financial statements have corrected all known data entry errors. In the first quarter of 2005 we hired additional accounting personnel and reassigned duties and authority to assure adequate separation of responsibilities relating to financial reporting and control activities. We worked on further documentation of the system in the second quarter. We expect to complete documenting the system and to test it during the third quarter of 2005.

Nevertheless, for the period ending September 30, 2005, our internal control improvements had not been fully implemented and had not been tested. As a result, management concluded that the effectiveness of its internal control over financial reporting during this period was not sufficiently adequate to rely solely upon them for our financial reporting. Instead, we relied on compensating controls and procedures to ensure the reliability of the disclosures made in this report. These consisted of consultation between management, the audit committee and outside auditors, including an independent accounting firm retained separately from our independent auditors to advise us specifically on disclosure control and internal control over financial reporting. Based on those consultations, management's evaluation of the information gathered in preparation of this report, and the work done to improve internal control through the end of September, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of September 30, 2005.

Changes In Internal Controls - 3rd Quarter Remediation

During the latter part of 2004 we discovered and corrected two entry errors in prior financial statements. We corrected those items and restated our financial statements accordingly. In reviewing our internal controls over financial reporting we identified what management believes were several material weaknesses. During the first quarter of 2005 we implemented a formal remediation program designed to correct identified and reported material weaknesses and deficiencies in a complete and expeditious manner with the objective of eliminating risks to financial reporting and strengthening internal controls.

During the third quarter we continued our remediation activities which include:

- continuing our flow charting and narrative development of operational processes, financial reporting activities, remediation changes and other internal controls.

- preparing a policy and procedures manual to further detail process and internal control specifics and will be monitored and updated as appropriate.

- modifying the current accounting solution and organizational structure to strengthen internal control and mitigate potential risk to financial reporting.

We continue to work with an independent outside accounting firm, separate from our auditing firm, in implementing internal control assertion definitions along with review and periodic testing validation. Management is communicating with both the Audit Committee and the Board of Directors to provide scheduled remediation updates. We are currently testing the new procedures .

PART II - OTHER INFORMATION

Item 2 - Unregistered Sales of Equity Securities

On September 13, 2005, we issued 30,000 shares of stock to an individual to acquire royalty interest on our Alaska project. The closing price per shares of our stock on September 13, 2005 was $9.99. The stock was issued in reliance on the exemption from registration requirements provided by Section 4(2) of the Securities Act of 1933.

Item 6 - Exhibits

Item	Description
10.1	Purchase and Sale Agreement by and among Sealaska Corporation and Seacal, LLC, and Select Resources Corporation, Inc. (April 1, 2005), incorporated by reference to Exhibit 2.1 of Tri-Valley's Form 8-K filed August 1, 2005
10.2	Articles of Merger between Coastal Oil Sands Co. and Pleasant Valley Energy Corporation, incorporated by reference to Exhibit 2.1 of Tri-Valley's Form 8-K filed May 12, 2005
10.3	Restated Agreement and Plan of Merger Among Tri-Valley Corporation Coastal Oil Sands Co., Petrawest Ltd. And Pleasant Valley Energy Corporation, incorporated by reference to Exhibit 2.2 of Tri-Valley's Form 8-K filed May 12, 2005
10.4	Amendment No. 1 to Restated Agreement and Plan of Merger Among Tri-Valley Corporation Coastal Oil Sands Co., Petrawest Ltd. And Pleasant Valley Energy Corporation, incorporated by reference to Exhibit 2.3 of Tri-Valley's Form 8-K filed May 12, 2005
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

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

November 8, 2005	/s/ F. Lynn Blystone F. Lynn Blystone President and Chief Executive Officer
November 8, 2005	/s/ Thomas J. Cunningham Thomas J. Cunningham Secretary, Treasurer, Chief Financial Officer

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) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) 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: November 8, 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) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) 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: November 8, 2005

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

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: November 8, 2005

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

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: November 8, 2005

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