TRI VALLEY CORP
Form 10KSB/A
July 05, 2001

As filed with the SEC on July 5, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB/A

AMENDMENT NO. 2 TO

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2000 Commission File No. 0-6119

TRI-VALLEY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	84-061743
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

230 South Montclair Street, Suite 101, Bakersfield, California 93309

(Address of Principal Executive Offices)

Registrant's Telephone Number Including Area Code: (661) 837-9300

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, $0.001 par value

(Title of Class)

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 requirement for the past 90 days. Yes [X] No[ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB, if applicable, or any amendment to this Form 10-KSB. [X]

The issuer's revenues for the most recent fiscal year were $2,197,369.

As of January

25, 2001, 19,653,748 common shares were issued and outstanding, and the aggregate market value of the common shares of Tri-Valley Corporation held by non-affiliates on that date was approximately $29,078,340.

DOCUMENTS INCORPORATED BY REFERENCE: None

Transitional Small Business Disclosure Format (check one): Yes [ ]; No [X]

Exhibit Index appears on page

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PART I

ITEM 1. Business

Tri-Valley Corporation, a Delaware corporation, is in the business of exploring, acquiring and developing prospective and producing petroleum and precious metals properties and interests therein. Tri-Valley has two wholly owned subsidiaries. Tri-Valley Oil & Gas Company ("TVOG") operates the oil & gas activities. TVOG derives the majority of its revenue from gas production. Tri-Valley Power Corporation is the other wholly owned subsidiary. However, this subsidiary is inactive at the present time. The precious metals activity is operated directly by Tri-Valley Corporation.

TVOG primarily generates its own exploration prospects from its internal database, and also screens prospect submittals from other geologists and companies. TVOG generates these geological "plays" within a certain geographic area of mutual interest ("AMI"). The prospect is then presented to potential co-venturers. The company deals with both sophisticated individual investors and energy industry companies. TVOG is the operator of these co-ventures.

In 1987, the Company acquired precious metals claims on Alaska state lands. The Company has conducted exploration operations on these properties and has reduced its original claims to a block of approximately 38,760 acres (60.6 square miles). The Company has conducted trenching, core drilling, bulk sampling and assaying activities to date and has reason to believe that mineralization exists to justify additional exploration activities. However, to date, the Company has not identified probable mineral reserves on these properties. There is no assurance that a commercially viable mineral deposit exists on any of these above-mentioned mineral properties. Further exploration is required before a final evaluation as to the economic and legal feasibility can be determined.

ITEM 2. Properties

The Company's headquarters and administrative offices are located at 230 South Montclair Street, Suite 101, Bakersfield, California 93309. The Company leases approximately 2,500 square feet of office space at that location. The principal properties of the Company consist of proven and unproven oil and gas and precious metal properties, maps and geologic records related to prospective oil and gas and precious metal properties, office and other equipment. TVOG has a worldwide geologic library with data on every continent except Antarctica including over 700 leads and prospects in California, the Company's present area of emphasis. This is further supported by a database of over 20,000 line miles of 2-D seismic.

Oil and Gas Operations

The oil and gas properties in which the Company holds interests are primarily located in the area of central California known as the Sacramento Valley. The Company also leases exploration acreage in the San Joaquin and Santa Maria Valleys. The Company contracts for the drilling of all its wells and does not own any drilling equipment, bulk storage facilities, transportation pipelines or refineries.

The company has retained the services of Cecil Engineering, an independent engineer, for the purposes of estimating the Company's net share of proved developed oil and gas reserves on all the Company's oil and gas properties at December 31, 2000. The Company does not include any undeveloped reserves in these reserve studies and, accordingly, only proved developed reserves are reported herein. Price is a material factor in the stated reserves of the Company, because higher prices permit relatively higher-cost reserves to be produced economically. Higher prices generally permit longer recovery, hence larger reserves at higher values. Conversely, lower prices generally limit recovery to lower-cost reserves, hence smaller reserves. The process of estimating oil and gas reserve quantities is inherently imprecise. Ascribing monetary values to those reserves, therefore, yields imprecise estimated data at best.

The estimated future net recoverable oil and gas reserves from proved developed properties as of December 31, 2000, December 31, 1999 and December 31, 1998 were as follows:

ITEM 2. Properties

BBL MCF

December 31, 2000 CondensateJ99 Natural GasI,842,672

December 31, 1999 CondensateI85 Natural GasI,540,003

December 31, 1998 CondensateJ34 Natural GasI,434,539

Using year-end oil and gas prices and current levels of lease operating expenses, the estimated present value of the future net revenue to be derived from the Company's proved developed oil and gas reserves, discounted at 10%, was $12,920,069 at December 31, 2000, $1,308,178 at December 31, 1999,and $1,213,400 at December 31, 1998. Reference is made to the unaudited supplemental information of the consolidated financial statements for further information on oil and gas reserves and estimated values .

The following table sets forth the net quantities of natural gas and crude oil produced by Registrant during:

	Year Ended	Year Ended	Year Ended
	December 31,	December 31,	December 31,
	2000	1999	1998

Natural Gas (MCF)	249,011	210,333	277,946
Crude Oil (BBL)	50	119	137

The following table sets forth the average sales price and average production (lifting) cost per unit of oil and gas produced by registrant during:

	Year Ended		Year Ended		Year Ended
	December 31,		December 31,		December 31,
	2000		1999		1998
	Gas (Mcf)	Oil (Bbl*)	Gas (Mcf)	Oil (Bbl*)	Gas (Mcf)
Sales Price	$3.99	$19.98	$2.39	$11.57	$2.20
Production Costs	.29	0	.67	0	.20
Net Profit	$3.70	$19.98	$1.72	$11.57	$2.00

* Amount represents total sales price of associated condensate, unable to determine price per barrel.

As of December 31, 2000, the Company had the following gross and net position in wells and developed acreage:

Wells (1)		Acres (2)	
Gross	Net	Gross	Net
11	L.537	2192	645

1. "Gross" wells represent the total number of producing wells in which the Company has a working interest. "Net" wells represent the number of gross producing wells multiplied by the percentages of the working interests therein by the Company. "Net wells" recognizes only those wells in which the Company holds an earned working interest. Working interests earned at payout have not been included.
2. "Gross" acres represent the total acres in which the Company has a working interest; "net" acres represent the aggregate of the working interests of the Company in the gross acres.

The Company drilled one exploratory well in 2000, but as of March 15, 2001, the Company has not determined whether this well is capable of commercial production. *See Management's Discussion and Analysis of Financial Condition - Petroleum Activities, page 8.*

ITEM 2. Properties

The following table sets forth the number of productive and dry exploratory and development wells drilled by the Company during:

	Year Ended	Year Ended	Year Ended
	December 31,	December 31,	December 31,
	2000	1999	1998
Exploratory	2*		
Producing	-0-	-0-	-0-
Dry	1**	-0-	-0-
Total	-0-	-0-	-0-
Development			
Producing	-0-	-0-	-0-
Dry	-0-	-0-	-0-
Total	-0-	-0-	-0-

*At December 31, 2000 , one well, the Ekho #1, had been drilled but not yet completed. The Sunrise Mayel #1 was still drilling.

**During 2000 we plugged and abandoned one well that had been drilled in 1998 but had never produced hydrocarbons in commercial quantities.

The following table sets forth information regarding undeveloped oil and gas acreage in which the Company had an interest on December 31, 2000.

State	Gross Acres	Net Acres
California	25,564	20,890
Nevada	14,575	14,575

Some of the Company's undeveloped acreage is held pursuant to leases from landowners. Such leases have varying dates of execution and generally expire one to five years after the date of the lease. In the next three years, the following lease gross acreage expires:

Expires in 2001	150 acres

Expires in 2002 M,852 acres

Expires in 2003 O,843 acres

Precious Metals

The precious metals properties are located in interior Alaska. They are comprised of 898 40-acre claims and 16 160-acre prospecting sites, of which 84 claims are leased from others, located solely on State open lands requiring annual assessment work, and an annual per claim fee. All fees are current.

The mining claim block covers about 60.6 square mils or 38,760 acres of land, all of which is owned by the State of Alaska. The claims lie within T-5-6-7 S, R 6-7-8 E, Fairbanks Meridian (Plate 1), immediately north of the Richardson Highway, an all-weather paved highway that connects Fairbanks, Alaska, with points south and east. Fairbanks is approximately 65 miles northwest of Richardson, and Delta Junction, also on the highway, is about 30 miles to the southeast. The Trans Alaska Pipeline corridor is near the northeastern edge of the claim block and the service road along the pipeline provides access to the claims from the north. Numerous good to fair dirt roads traverse the claims.

ITEM 2. Properties

The following table sets forth the information regarding the acreage position the Company has under lease in Alaska as of December 31, 2000:

State	Gross Acres	Net Acres
Alaska	38,760	37,966

Mineral properties claimed on Open State land require minimum annual assessment work of $100 worth per State of Alaska claim. In 1999, the Company staked 40 160-acre prospecting sites. In July 2000, the Company converted 24 prospecting sites into 96 new claims and staked an additional 32 claims to bring its land position to approximately 40,640 acres (63.5 square miles). These additional 128 claims were subsequently dropped in November 2000. Also in 2000, Kinross Gold Co., successor to Cyprus Amax Mining Co., quitclaimed 81 claims to Tri-Valley, bringing its present land position to approximately 38,760 acres (60.6 square miles). Expenditures on the Richardson, Alaska acreage have already carried forward annual assessment requirements more than four years on all its claims. The Company has no Federal claims.

Tri-Valley has had a joint scientific research agreement with TsNIGRI, the Central Research Institute of Geological Prospecting for Base and Precious Metals, based in Moscow, Russia since 1991. The proprietary technology they use for evaluating large areas of covered sub-arctic terrain has been impressive and encouraging to our efforts. Minute amounts of gold have been found at 60 locations along a 20-mile swath and over 1,000 samples have been assayed by Bondar-Clegg, a respected assay house. We believe we have a great potential and intend to continue our exploration of these properties.

The Company intends to continue its exploration efforts for precious metals on our claim block in Richardson, Alaska. With the help of TsNIGRI, the Company has been exploring and evaluating this property during the summer months, due to the constraints of the weather in the winter months. This work will consist of field activity which includes drilling bore holes, mapping and other geological work.

Environmental

The Company's energy operations are subject to a number of regulations relating to environmental protection, as are all exploration and production companies. However, the Company believes it is in full compliance with all environmental related rules and regulations.

ITEM 3. Legal Proceedings

During 2000, we settled one lawsuit between the Company and a former consultant, which had been pending from 1997. We were not party to any other material legal proceedings during 2000.

ITEM 4. Submission of Matters To A Vote Of Security Holders

On September 16, 2000, the Company held its annual meeting. The matters submitted to a vote of the security holders included the election of directors, restated Certificate of Incorporation , and the election by the Company to be governed by Section 203 of the Delaware General Corporation Laws. The shareholders elected all of the nominees for director who were recommended by the board. They approved the restated Certificate of Incorporation and approved the proposal to be governed by Section 203 of the Delaware General Corporation Law.

The shareholder votes were as follows:

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ITEM 4. Submission of Matters To A Vote Of Security Holders

Measure #1 - Election of Directors			
	FOR	AGAINST	ABSTAIN
Earl H. Beistline	18,260,785	127,325	
F. Lynn Blystone	18,264,680	123,430	
Milton J. Carlson	18,266,485	121,625	
Dennis P. Lockhart	18,266,485	121,625	
Loren J. Miller	18,266,485	121,625	

Measure #2 - Approved restated Certificate of Incorporation.			
	FOR	AGAINST	ABSTAIN
	14,352,402	111,309	4,046,024
Measure #3 - Election by the Company to be governed by Section 203 of the Delaware General			
Corporation Laws.			
	FOR	AGAINST	ABSTAIN
	14,318,398	189,213	4,002,124

PART II

ITEM 5. Market Price Of The Registrant's Common Stock And Related Security Holder Matters

Shares of Tri-Valley Corporation stock are traded over-the-counter on the Electronic Bulletin Board under the symbol "TRIL". The following table shows the high and low bid and asked prices of Tri-Valley stock for the quarterly periods indicated as reported by the OTC Stock Journal:

<TABLE><CAPTION>

<BTB>

	Bid Prices		Asked Prices	
	High	Low	High	Low
<S>				
2000:				
First Quarter	$K.438	$I.44	$K.63	$I.43
Second Quarter	$L.125	$J.03	$L.53	$I.88
Third Quarter	$K.188	$I.75	$K.38	$I.72
Fourth Quarter	$I.938	$I.13	$J.06	$I.06

</TABLE>

<BTB>

	Bid Prices		Asked Prices	
	High	Low	High	Low
<S>				
1999:				
First Quarter	$ .470	$ .34	$ .56	$ .34
Second Quarter	$I.063	$ .38	$I.12	$ .38
Third Quarter	$I.188	$ .72	$I.31	$ .63
Fourth Quarter	$I.969	$I.19	$J.16	$I.19

As of December 31, 2000, the Company estimates that its common stock was held by approximately 2,000 shareholders of record in 40 states and at least 4 foreign countries.

The Company historically has paid no dividends, and at this time does not plan to pay any dividends in the immediate future. Rather, the Company strives to add share value through discovery success. As of January 22, 2001, we had 13 market makers for our stock. In 2000, trading volume exceeded 14 million shares.

Recent Sales of Unregistered Securities

During 2000 there were 14,000 shares issued at $0.50 each from the exercise of stock options held by one director and one former employee. Additionally, 194,500 shares were sold to individuals in private placement, 55,000 at a price of $1.25 per share and 139,500 at a price of $1.50 per share, all exempt under Section 4(2) of the Securities Act of 1933. Also in 2000, 40,000 shares were awarded to outside directors for past services and 5,000 shares were issued to F. Lynn Blystone according to the terms of his employment agreement.

ITEM 6. Management's Discussion And Analysis Of Financial Condition

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.

Overview

We believe that, after 20 years of downsizing in the petroleum industry, increased oil and natural gas prices during the past year have created a favorable environment for renewed growth. Production from existing reserves continues to decline, while demand increases. While the trend for demand to outstrip available supplies is worldwide as well as national, we believe that it is particularly acute in California, our primary venue for exploration and production, which imports 53% of its oil and 85% of its natural gas demand. According to Liam McGee, the President of Bank of America, California is the world's fifth largest economy. Oil prices tend to be set based on worldwide supplies and prices, while natural gas prices seem to be more dependent on local conditions. Over the past year, natural gas prices in California have risen dramatically, and our revenue due to oil and gas sales has risen with the price of gas. We expect that gas prices will hold steady or possibly increase over the next year. If has prices should fall, for instance due to new regulatory measures or the discovery of new and easily producible reserves, our revenue from oil and gas sales would also fall.

We are now grading and prioritizing our geologic library, which contains over 700 leads and prospects, for exploratory drilling. We use our library to decide where we should seek oil and gas leases for future explorations. Of course, we cannot be sure that any future prospect can be obtained at an attractive lease price or that any exploration efforts would result in a commercially successful well.

Management is confident that the Company inventory and projects can deliver exceptional value to shareholders and partners if we can fund a velocity of drilling to make the discoveries among the inevitable dry holes of the exploration business. We seek to fund and drill enough exploratory wells for commercial discoveries to make up for the cost of the inevitable dry holes that we can expect, in the exploration business. Our future results will depend on our success in finding new reserves and commercial production, and there can be no assurance what revenue we can ultimately expect from any new discoveries.

Natural Gas Activities

The Company generally sells a percentage of production on a fixed contract price and the remainder at the monthly spot price. In times when we expect the price of gas to weaken, we try to increase the amount we sell under fixed prices. When we expect the price of gas to rise, we seek to sell more gas in the spot market. In 2000, we sold 49% of our production under fixed price contracts and 51% on the spot market. Because we expect gas prices to continue to rise, we intend to sell 100% of our production on the spot market in 2001. Because we plan to sell only on the spot market in 2001, a drop in the price of gas would have a more adverse impact on us than if we entered into some fixed price contracts for sale of future production.

Our hydrocarbon reserves were valued by independent engineers at a net present value of $11,887,320 at December

31, 2000, an increase of $10,670,021 from December 31, 1999 after taking into account the SEC mandatory 10% discount rate and also taking into consideration the effect of income tax. This was due primarily to the increase in gas prices. Estimates such as these are subject to numerous uncertainties inherent in the estimation of quantities of proved reserves. This value does not appear on the balance sheet because accounting rules require discovered

reserves to be carried on the balance sheet at the cost of obtaining them rather than the actual future net revenue from producing them.

Tri-Valley arranges to be carried, (we don't have to pay for our interest), in the test wells on prospects. Under these arrangements, we usually minimize the Company's cost to drill and also receive relatively little value from the reserves we discover. On the other hand, we occasionally incur extra expenses for drilling or development that we choose, in our discretion, not to pass on to other venture participants. This occurred in 2000, when we incurred dry hole expenses of $440,228 that we elected not to charge to our co-venturers.

Petroleum Activities

We began drilling the Ekho No. 1 on February 7, 2000. This is the first of three test wells in a program to test deep mapped structure approximately 26 miles long and four to five miles wide and north of Bakersfield, where Tri-Valley Oil and Gas (TVOG) is headquartered. The Ekho No. 1 reached total depth of 19,085 feet in only 80 drilling days. We hoped to drill into naturally fractured area of the target formation to achieve natural flow potential. The well did encounter oil that is 48.6 API gravity and 1,460 Btu gas with no H_2S, CO_2, nitrogen or water. However, the borehole encountered "tight" sands, which will require artificial fracturing to provide avenues for the oil and gas to flow at higher rates.

This additional cost came at a time when the Canadian partners in the joint venture encountered national market conditions that precluded them from raising sufficient funds to stay in the project and all but one of the Canadian partners dropped out. Tri-Valley is in the process of repartnering the project with stronger partners to assure that the project can go forward through completion of the Ekho No. 1 and into drilling the Ekho No. 2 and No. 3 test wells.

Precious Metals Activity

The price of gold has fluctuated in the last 12 months from a high of $316.20 per oz. to a low of $262.80 per oz.

Tri-Valley and Placer Dome U.S., Inc., entered into an agreement on March 22, 1999, whereby they would explore part of our claim block. They performed field exploration work in the summer of 1999 and 2000. However due to the depressed prices of gold, Placer Dome on September 18, 2000, notified us that they were not going to go further on the agreement. Tri-Valley retains rights to 60.6 square miles of claims and prospecting sites.

We are confident that other parties will be willing to participate when the price of gold recovers. Kennecott Exploration has signed a confidentiality/non-compete agreement on Tri-Valley's entire claim block plus another 50 square miles surrounding.

Telecommunications

We loaned a general partnership $125,000.00 in 1997 which was secured by the assets of the partnership. The note is in default and the Company is trying to collect on this note. The managing general partner is alleging the assets belong to an L.L.C., which is in bankruptcy. The underlying licenses are being sold and the proceeds will be put in escrow until the bankruptcy court determines the rightful owner. We feel that we will prevail and be successful in recovering our claim.

Results of Operations

Comparison of Years Ended December 31, 2000 and 1999

Balance Sheet

The Company had $1,373,570 cash on hand at December 31, 2000 compared to $8,050,469 at December 31, 1999. This decrease was the result of the Company spending funds that had been advanced by our joint venture partners to drill Ekho #1. Trade accounts receivable are $663,177 (427% greater) for the year ended December 31, 2000 compared to the same period last year. This was the result of increased production due to re-working of some of our wells and the increase of natural gas prices. Trade accounts payable were $189,913 (48% greater) in the year ended

December 31, 2000 due to invoices to be paid related to drilling the Sunrise-Mayel#1 well. Accounts payable to joint venture participants is larger this year due to accrued revenue at year-end on their behalf. The decrease in advances from joint venture participants is because at year end 1999 we had funds on deposit for the Ekho #1 that were paid out over 2000 as the well was drilled.

Revenues

Oil and gas income amounted to $1,045,013 for the year ended 2000 compared to $522,591 for the year ended 1999, a 199% increase. This $522,422 increase was due to increased production and the increase in natural gas prices. Our oil and gas income includes sales of oil and gas, royalties, and partnership income. The decrease of $928,791 in sale of oil and gas prospects was because the prospect we sold in 2000 was smaller than the prospect sold in 1999.

Interest income increased by $66,881 (207%) in 2000 to $99,234, from $32,353 in 1999. The increased interest income came from funds the company had on account.

Other income dropped to $34,862 in 2000 from $261,460 in 1999, because Placer Dome USA, paid the Company $225,000 pursuant to our option agreement signed in 1999, discussed in *Precious Metals Activity*.

Costs and Expenses

Costs and expenses are $900,287 greater for the fiscal year 2000, a 34% increase. The oil and gas lease expenses were $440,428 larger due to the write off of a well that was drilled in a previous year. Cost of oil and gas prospects sold are $276,051 (26%) less this year because this prospect was smaller than the one sold in 1999. General and administrative expenses are $928,847 (107%) greater due to legal costs and the settlement of a lawsuit filed in 1997.

In 1999, we recorded $148,334 for impairment of acquisition costs, as we wrote down the value of previously acquired properties. We incurred no such impairment expense in 2000.

Financial Condition

Operating Activities

Tri-Valley had a negative cash flow from operations during 2000. This was due in large part to a one-time charge to settle the lawsuit. Also, the Company incurred a write-off of a well deemed to be non-commercial. The Company expects to have a positive cash flow in the fiscal year 2001 due to the increased natural gas prices.

Investing Activities

In 2000, we spent $293,489 on capital expenditures, compared to $105,713 in 1999 - a 177% increase. The capital expenditures were incurred in connection with leasing activities. Our proceeds from sale of property increased by $74,760 (93%) in 2000 to $154,760, compared to $80,000 in 1999. Overall, our cash used by investing activities rose to $155,782 in 2000 from $27,033 in 1999, a $128,749 (476%) increase.

Financing Activities

Cash used by financing activities was ($5,111,663) in fiscal year 2000 compared to cash provided financing activities of $7,918,906 for fiscal year ended 1999. In 1999, joint venture participants advanced $7,742,568 for the Ekho #1 well. In 2000, we recorded a decrease of funds advanced of $5,359,863 as we expended the funds to drill the well.

The Company in recent years has financed a portion of its operations by the sale of the Company's common stock in private placement transactions. In 2000, we raised $285,000 from private placements of common stock, compared to $171,307 in 1999.

The overall increase in all activity related to our cash flows in 2000 were directly related to the large size of the Ekho project, for which funds were largely raised in 1999 and spent in 2000, on the first Ekho well.

ITEM 7: FINANCIAL STATEMENTS

TRI-VALLEY CORPORATION

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REPORT OF INDEPENDENT AUDITOR'S

The Board of Directors

Tri-Valley Corporation

Bakersfield, California

We have audited the accompanying consolidated balance sheets of Tri-Valley Corporation as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly in all material respects the financial position of Tri-Valley Corporation at December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

BROWN ARMSTRONG RANDALL

REYES PAULDEN & McCOWN

ACCOUNTANCY CORPORATION

Bakersfield, California

February 9, 2001

TRI-VALLEY CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31, 2000	December 31, 1999
ASSETS		
Current Assets		
Cash	$ 1,373,570	$ 8,050,469
Accounts receivable, trade	818,361	155,184
Prepaid expenses	12,029	2,029
Total Current Assets	2,203,960	8,207,682
Property and Equipment, Net (Notes 1 and 2)	1,306,689	1,059,755
Other Assets		
Deposits	100,105	100,000
Note receivable (Note 9)	125,000	125,000
Acquisition costs (Note 1)	51,270	50,000
Investments in partnerships (Note 1)	29,059	12,006
Well Database (net of accumulated amortization of $44,788 and $37,755 at December 31, 2000 and 1999, respectively)	63,862	70,895
Goodwill (net of accumulated amortization of $210,593 and $199,747 at December 31, 2000 and 1999, respectively) (Note 1)	223,260	234,106
Other	13,914	13,914

Total Other Assets	606,470	605,921
TOTAL ASSETS	$ 4,117,119	$ 9,873,358
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable (Note 3)	$ 10,672	$ 10,554
Trade accounts payable	581,017	391,104
Amounts payable to joint venture participants	540,142	95,986
Advances from joint venture participants, net (Note 1)	2,517,737	7,877,600
Total Current Liabilities	3,649,568	8,375,244
Long-Term Portion of Notes Payable (Note 3)	12,038	21,055
Shareholders' Equity		
Common stock, $.001 par value; 100,000,000 shares authorized;		
19,554,748 and 19,301,248, issued and outstanding at		
December 31, 2000 and 1999, respectively	19,555	19,281
Less: common stock in treasury, at cost, 163,925 and 179,425		
	(21,913)	(45,163)

shares at December 31, 2000 and 1999, respectively		
Capital in excess of par value	8,666,688	8,344,462
Accumulated deficit	(8,208,817)	(6,841,521)
Total Shareholders' Equity	455,513	1,477,059
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 4,117,119	$ 9,873,358

TRI-VALLEY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	December 31, 2000	December 31, 1999
Revenues		
Sale of oil and gas	$ 993,554	$ 504,072
Royalty	11,406	4,968
Partnership income	39,053	13,820
Gain on sale of property	154,760	77,434
Interest income	99,234	32,353
Sale of oil and gas prospects	863,500	1,792,291
Other income	35,862	261,460

Total Revenues	2,197,369	2,686,129
Costs and Expenses		
Mining exploration costs	162,741	193,069
Oil and gas leases	72,213	141,237
Well workover	37,786	4,086
Severed Acreage	1,026	16,195
Well write-off	490,921	-
Cost of oil and gas prospects sold	784,710	1,060,761
General and administrative	1,931,105	1,002,258
Depreciation, depletion and amortization	64,433	80,946
Interest	19,730	17,492
Impairment of acquisition costs	-	148,334
Total Costs and Expenses	3,564,665	2,664,378
Net Income (Loss) before Income Taxes	(1,367,296)	21,751
Tax Provision (Note 5)	-	-
Net Income (Loss)	$ (1,367,296)	$ 21,751
Basic Earnings (Loss) per Common Share	$ (.07)	$ .00

Diluted Earnings (Loss) per Common Share	$ N/A	$ .00
Weighted Average Number of Shares Outstanding	19,293,188	18,957,278

TRI-VALLEY CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN

SHAREHOLDERS' EQUITY

	Shares	Par Value	Capital in Excess of Par Value	Accumulated Deficit	Treasury Stock	Shareholder Equity
Balance at December 31, 1998	19,088,248	$ 19,088	$ 8,177,655	$ (6,863,272)	$ (41,061)	$ 1,292,410
Issuance of common stock	193,000	193	171,307	-	(4,102)	167,398
Stock issuance costs	-	-	(4,500)	-	-	(4,500)
Net income	-	-	-	21,751	-	21,751
Balance at December 31, 1999	19,281,248	19,281	8,344,462	(6,841,521)	(45,163)	1,477,059

Issuance of common stock	273,500	274	373,376	-	23,250	396,900
Stock issuance costs	-	-	(51,150)	-	-	(51,150)
Net income (loss)	-	-	-	(1,367,296)	-	(1,367,296)
Balance at						
December 31, 2000	19,554,748	$ 19,555	$ 8,666,688	$ (8,208,817)	$ (21,913)	$ 455,513

TRI-VALLEY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31, 2000	December 31, 1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (1,367,296)	$ 21,751
Adjustments to reconcile net income (loss) to net cash		
used by operating activities:		
Depreciation, depletion, and amortization	64,433	80,946
(Gain) on sale of property	(154,760)	(77,434)
Non-employee stock compensation	88,650	-
Impairment, dry hole and other disposals of property		
and equipment	-	164,529
Changes in operating capital:		

(Increase) decrease in accounts receivable	(663,177)	152,389
Increase in prepaids	(10,000)	-
Increase in deposits and other assets	(1,375)	(28,992)
Increase (decrease) in trade accounts payable	189,915	(191,431)
Increase (decrease) in amounts payable to joint venture		
participants and related parties	444,156	(154,390)
Net Cash Used by Operating Activities	(1,409,454)	(32,632)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property	154,760	80,000
Capital expenditures	(293,489)	(105,713)
Investment in partnerships	(17,053)	(1,320)
Net Cash Used by Investing Activities	(155,782)	(27,033)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in advances from joint venture participants	(5,359,863)	7,742,568
Principal payments on long-term debt	(8,900)	(5,134)

Proceeds from issuance of common stock	274	192
Additional paid in capital	284,726	171,307
Purchase of treasury stock	-	(4,102)
Sale of treasury stock	23,250	-
Proceeds from loan	-	18,575
Stock issuance costs	(51,150)	(4,500)
Net Cash Provided (Used) by Financing Activities	(5,111,663)	7,918,906
Net Increase (Decrease) in Cash and Cash Equivalents	(6,676,899)	7,859,241
Cash at Beginning of Year	8,050,469	191,226
Cash at End of Year	$ 1,373,570	$ 8,050,469

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Interest paid	$ 19,730	$ 17,492
Income taxes paid	$ 15,756	$ 4,662

TRI-VALLEY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000 AND 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Tri-Valley Corporation is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Tri-Valley Oil & Gas Co. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the estimate of Company oil and gas reserves prepared by an independent engineering consultant. Such estimates are subject to numerous uncertainties inherent in the estimation of quantities of proved reserves. Estimated reserves are used in the calculation of depletion, depreciation and amortization as well as the Company's assessment of proved oil and gas properties for impairment.

History and Business Activity

Historically an oil and gas exploration and production company, emphasizing the Sacramento Valley natural gas province and now very active in the south San Joaquin Valley. In 1987, the Company added precious metals exploration. The Company conducts its oil and gas business primarily through its wholly owned oil and gas subsidiary, Tri-Valley Oil & Gas Company ("TVOG"). TVOG is engaged in the exploration, acquisition and production of oil and gas properties . At present, the precious metals exploration activities are conducted directly by the parent, Tri-Valley Corporation ("TVC"). TVC has traditionally sought acquisition or merger opportunities within and outside of petroleum and mineral industries.

Cash Equivalent and Short-Term Investments

Cash equivalents include cash on hand and on deposit, and highly liquid debt instruments with original maturities of three months or less.

Goodwill

The consolidated financial statements include the net assets purchased of Tri-Valley Corporation's wholly owned oil and gas subsidiary, TVOG. Net assets are carried at their fair market value at the acquisition date. The excess of acquisition costs over the fair value of assets acquired is included in and has been allocated to goodwill. Goodwill of $433,853 is being amortized on a straight-line basis over 40 years. The carrying amount of goodwill is evaluated periodically. Factors used in the evaluation include the Company's ability to raise capital as a public company and anticipated cash flows from operating and non-operating mineral properties. Tri-Valley Corporation has not established an allowance for the impairment of goodwill which may be realized should the Company be acquired or merged with another organization.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Acquisition Costs

In prior years, the Company capitalized costs as a part of a potential acquisition of 26 wireless communication licenses held by five partnerships. As discussed in Note 9, the licenses and equipment, which the Company may eventually acquire, are included in a security agreement as collateral between the debtor and the Company. During 1999, $148,334 of previously capitalized acquisition costs were considered impaired.

Drilling Agreements/Joint Ventures

Tri-Valley frequently participates in drilling agreements whereby it acts as operator of drilling and producing activities. As operator, TVOG is contingently liable for the activities of these ventures. The Company owns a carried interest and/or overriding royalty interest in such ventures, earning a working interest at payout.

Receivables from and amounts payable to these related parties (as well as other related parties) have been segregated in the accompanying financial statements. In the event the Company has expended funds for a project in an amount greater than the original contribution from investors, the Company cash-calls the participants for additional funds. Excess project funding is held until it is determined that no further requirement exists for abandonment or plugging back of project wells, at which time the funds are refunded. In 2000, the Company expensed $490,861 worth of joint venture project costs attributed to a dry hole project.

Sale of Oil and Gas Prospects

The Company sells the rights to oil and gas prospects to the joint ventures created for drilling and exploration activities. These amounts represent the Company's costs of leasing and acquiring the prospects, and other geological and geophysical costs (hereafter referred to as "GGLA") plus a profit to the Company. The Company recognizes gain on the sale of prospect GGLA at the point when the joint venture is fully funded, as the portion of the project cost attributed to GGLA is nonrefundable upon completion of project funding.

Oil and Gas Property and Equipment (Successful Efforts)

The Company accounts for its oil and gas exploration and development costs on the successful efforts method. Under this method, costs to acquire mineral interests in oil and gas properties, to drill and complete exploratory wells that find proved reserves and to drill and complete development wells are capitalized. Exploratory dry-hole costs, geological and geophysical costs and costs of carrying and retaining unproved properties are expensed when incurred, except those GGLA expenditures incurred on behalf of joint venture drilling projects, which the Company defers until the GGLA is sold at the completion of project funding. Depletion, depreciation and amortization of oil and gas producing properties are computed on an aggregate basis using the units-of-production method.

The Financial Accounting Standards Board (FASB), Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and/or Long-Lived Assets to be Disposed of," requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. It establishes guidelines for determining recoverability based on future net cash flows from the use of the asset and for the measurement of the impairment loss. Impairment loss under SFAS No. 121 is calculated as the difference between the carrying amount of the asset and its fair value. Any impairment loss is recorded in the current period in which the recognition criteria are first applied and met. Under the successful efforts method of accounting for oil and gas operations, the Company periodically assesses its proved properties for impairments by comparing the aggregate net book carrying amount of all proved properties with their aggregate future net cash flows. The statement requires that the impairment review be performed on the lowest level of asset groupings for which there are identifiable cash flows. In the case of the Company, this results in a field by field impairment review.

Upon the sale of oil and gas reserves in place, costs less accumulated amortization of such property are removed from the accounts and resulting gain or loss on sale is reflected in operations. Upon abandonment of properties, the reserves are deemed fully depleted and any unamortized costs are recorded in the statement of operations under leases sold, relinquished and impaired.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Gold Mineral Property

The Company has invested in several gold mineral properties with exploration potential. All mineral claim acquisition costs and exploration expenditures are charged to expense as incurred. The Securities and Exchange Commission permits capitalization of acquisition and exploration costs only after persuasive engineering evidence is obtained to support recoverability of these costs (ideally upon determination of proven and/or probable reserves based upon dense drilling samples and feasibility studies by a recognized independent engineer). Although the Company has performed drilling samples, management has chosen to follow the more conservative method of accounting by expensing gold mineral costs in the period the expense is incurred.

Properties and Equipment

Properties and equipment are depreciated using the straight-line method over the following estimated useful lives:

Office furniture and fixtures	3 - 7 years
Building	40 years

Leasehold improvements are amortized over the life of the lease.

Maintenance and repairs, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains or losses on dispositions of property and equipment other than oil and gas are reflected in operations.

Concentration of Credit Risk and Fair Value of Financial Instruments

As discussed in Note 6, the Company sells oil, gas and natural gas liquids to primarily one purchaser located in the northern California region.

The Company places its temporary cash investments with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution.

Fair value of financial instruments are estimated to approximate the related book value, unless otherwise indicated, based on market information available to the Company. The fair value of the Company's note receivable is estimated based on the discounted value of the future cash flows expected to be received, and considers the length of time the note has been in default. The present value is estimated to be $94,000 at December 31, 2000.

Earnings (Loss) Per Share (SFAS 128)

Financial Accounting Standards Board (FASB), Statement of Financial Accounting Standards No. 128 (SFAS 128), "Earnings Per Share", was adopted by the Company for the year ended December 31, 1997. SFAS 128 replaces the presentation of primary earnings per share with a presentation of basic earnings per share based upon the weighted average number of common shares for the period. It also requires dual presentation of basic and diluted earnings per share for companies with complex structures.

Reclassification

Certain amounts in the financial statements have been reclassified to be consistent and comparable from year-to-year.

Accounting Pronouncements

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 which summarizes certain of the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company does not anticipate a material impact on its financial position or results of operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

In April 2000, the FASB issued Financial Interpretation Number (FIN) 44, Accounting for Certain Transactions Involving Stock Compensation--an Interpretation of Accounting Principles Board No. 25. FIN 44 clarifies the application of Opinion No. 25. This Interpretation was effective immediately and all issues are to be handled prospectively. The adoption of FIN 44 did not have a material impact on the Company's financial position or results of operations.

NOTE 2 - PROPERTY AND EQUIPMENT

Oil and gas properties, and equipment and fixtures consist of the following:

	December 31, 2000	December 31, 1999
Oil and Gas - California		
Proved properties, net of accumulated depletion of $525,916 and		
$496,282 at December 31, 2000 and 1999, respectively	$ 226,790	$ 200,104

Unproved properties	990,089	762,521
Total Oil and Gas Properties	1,216,879	962,625
Other Property and Equipment		
Land	11,281	11,281
Building, net of accumulated depreciation $9,495 and $8,367		
at December 31, 2000 and 1999, respectively	35,629	36,758
Office equipment, vehicle, and leasehold improvements net of		
accumulated depreciation of $142,348 and $125,427 at		
December 31, 2000 and 1999, respectively	42,900	49,091
Total Other Property and Equipment	89,810	97,130
Property and Equipment (Net)	$ 1,306,689	$ 1,059,755

NOTE 3 - NOTES PAYABLE

	December 31, 2000	December 31, 1999
Note payable to National Bank of Alaska dated August 27, 1992;		
secured by property; payable in monthly installments of $539		
including interest. Interest rate at 12.00%, December 31, 2000,		

and December 31, 1999.		$ 2,706	$ 8,460
Note payable to Imperial Premium Finance, Inc., dated June 9, 1997; secured by contractual policy; interest at 12.00%; payable in monthly installments of $680 including interest.		4,574	4,574
Note payable to Union Bank, dated January 15, 2000; secured by a vehicle; interest at 8.5%; payable in 60 monthly installments of $380.		15,430	18,575
	22,710		31,609
Less current portion	10,672		10,554
Long-Term Portion of Notes Payable	$ 12,038		$ 21,055

NOTE 3 - NOTES PAYABLE

(Continued)

Maturities of long-term debt for the years subsequent to December 31, 2000 are as follows:

Year Ended December 31,	
J001	$ 10,672
J002	3,691
J003	4,017
J004	4,330

$ 22,710

NOTE 4 - RELATED PARTY TRANSACTIONS

Employee Stock Options

The Company has a qualified and a nonqualified stock option plan which provide for the granting of options to key employees, consultants, and nonemployee directors of the Company.

The option price, number of shares and grant date are determined at the discretion of the Company's board of directors. Options granted under the plans are exercisable immediately, however, the plan expires in August 2008.

The Company has elected to account for the stock option plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued for Employees," and related interpretations. Accordingly, no compensation expense has been recognized for the stock option plans.

The fair value of each option grant is estimated on the date of granting using the Black-Scholes American option-pricing model with the following weighted-average assumptions used for grants in 2000 and 1999, respectively. Expected volatility of 89.28 and 89.97 percent for 2000 and 84.02 and 82.05 for 1999 and risk-free interest rates of 5.25 and 7.25 percent, respectively.

A summary of the status of the Company's fixed stock option plan as of December 31, 2000 and 1999, and changes during the years ending on those dates is presented below:

	2000		1999	
		Weighted-Average		Weighted-Average
	Shares	Exercise Price	Shares	Exercise Price
Fixed Options				
Outstanding at beginning of year	1,248,000	$0.77	666,000	$0.71
Granted	1,410,000	$1.57	600,000	$0.63
Exercised	(14,000)	$0.50	(18,000)	$0.50
Cancelled	-		-	
Outstanding at end of year	2,644,000	$1.20	1,248,000	$0.77
Options exercisable at year-end	2,644,000		1,248,000	

Weighted-average fair value of options granted during the year	$ 1.30	$ 0.53

NOTE 4 - RELATED PARTY TRANSACTIONS

(Continued)

The following table summarizes information about fixed stock options outstanding at December 31, 2000:

	Options Outstanding and Exercisable		
		Weighted-Average	
	Number Outstanding	Remaining	Weighted-Average
Range of Exercise Prices	at December 31, 2000	Contractual Life	Exercise Price
$.50 - $2.43	2,644,000	7.65	$ 1.20

A summary of option transactions during the years ended December 31, 2000 and 1999 is presented below:

	Number of Shares	Weighted-Average Exercise Price
Outstanding at December 31, 1998	666,000	$H.71
Issued	600,000	H.63
Exercised	(18,000)	H.50
Outstanding at December 31, 1999	1,248,000	H.77

Issued	1,410,000	I.57
Exercised	(14,000)	H.50
Outstanding at December 31, 2000	2,644,000	I.20
Exercisable at December 31, 2000	2,6	