TRI VALLEY CORP
Form 10-K/A
May 15, 2012

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

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

For the Fiscal Year Ended December 31, 2011
Commission File No. 001-31852

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

Delaware	94-1585250
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

Title of each class	Name of exchange on which registered
Common Stock, $0.001 par value	NYSE Amex, LLC

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

1

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant on June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price on that date of $0.60, was approximately $40.6 million.

The registrant had 68,013,521 shares of common stock outstanding at April 2, 2012.

Documents incorporated by reference: None.

EXPLANATORY NOTE

We are filing this Amendment No. 1 (the "Form 10-K/A") to our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (the "2011 Form 10-K"), as filed with the Securities and Exchange Commission on April 16, 2012 solely to correct an editing error relating to the Report of Independent Registered Public Accounting Firm (the "Revised Report") in Part II Item 8, "Financial Statements and Supplementary Data"; consequently, this Form 10-K/A only contains Part II Item 8. The error appears in the second and the fifth paragraphs on page 32 of the 2011 Form 10-K. The second paragraph should have been deleted and replaced with the fifth paragraph.

This Form 10-K/A is solely limited to providing the Revised Report. This Form 10-K/A does not reflect events occurring after the filing of the 2011 Form 10-K or modify or update the disclosures contained in the 2011 Form 10-K in any way other than as required to reflect the changes discussed above. Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as a result of this Form 10-K/A, the certifications pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, filed as Exhibits to the 2011 Form 10-K, have been re-executed and re-filed as of the date of this Form 10-K/A and are included as Exhibits hereto.

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Shareholders of Tri-Valley Corporation

We have audited the accompanying balance sheets of Tri-Valley Corporation as of December 31, 2011 and 2010, and the related statements of income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2011. Tri-Valley Corporation's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of Tri-Valley Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Tri-Valley Corporation will continue as a going concern. As discussed in Note 2 to the financial statements, Tri-Valley Corporation has incurred a net loss from operations for the year ended December 31, 2011, and has a retained earnings deficit as of December 31, 2011. Tri-Valley Corporation's reoccurring net loss raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

BROWN ARMSTRONG
ACCOUNTANCY
CORPORATION
/s/ Eric Xin

Bakersfield, California

April 16, 2012

4

TRI-VALLEY CORPORATION
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Current Assets		
Cash	$ 584,415	$ 581,148
Accounts receivable (Notes 3 and 16)	1,864,936	4,492,448
Prepaid and other	1,048,133	615,778
	3,497,484	5,689,374
Oil and gas properties (successful efforts basis), other property and equipment, net (Note 4)	8,393,499	6,719,353
Long-term receivables (Note 3)	6,339,144	1,830,317
Other long-term assets	419,128	762,448
	$ 18,649,255	$ 15,001,492
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 9 and 16)	$ 8,608,525	$ 8,052,388
Settlement of claim (Note 12)	1,500,000	-
Debt (Note 5)	76,041	134,322
Asset retirement obligations – current portion (Note 6)	22,881	-
	10,207,447	8,186,710
Asset retirement obligations (Note 6)	525,985	206,183
Long-term debt (Note 5)	3,522,746	455,246
	14,256,178	8,848,139
Commitments and Contingencies (Note 7)	-	-
Stockholders' Equity		
Series A preferred stock - 10.00% cumulative; $0.001 par value; $10.00 liquidation value; 20,000,000 shares authorized; 438,500 shares outstanding (Note 8)	439	439
Common stock, $0.001 par value; 100,000,000 shares authorized; 67,615,407 and 44,750,964 shares issued at December 31, 2011 and 2010, respectively. (Note 8)	67,615	44,751
Less: common stock in treasury, at cost; none and 161,847 shares at December 31, 2011 and 2010, respectively. (Note 8)	-	(38,370)
Capital in excess of par value	72,657,724	63,112,372
Additional paid in capital – warrants (Note 13)	1,397,428	1,350,678
Additional paid in capital - stock options (Note 13)	3,073,360	2,806,945
Accumulated deficit	(72,803,489)	(61,123,462)
	4,393,077	6,153,353
	$ 18,649,255	$ 15,001,492

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

TRI-VALLEY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31,

	2011	2010
Revenues		
Oil and gas	$ 2,347,368	$ 1,756,570
Interest income and other	267,939	98,890
	2,615,307	1,855,460
Costs and Expenses		
Oil and gas production	1,814,405	1,507,434
Mining exploration	90,711	371,975
General and administrative	6,841,752	6,884,334
Write off and impairment loss (Note 4)	2,393,779	140,242
Loss on settlement of claim (Note 12)	1,500,000	-
Depreciation, depletion and amortization	683,530	570,020
Stock-based compensation (Note 13)	418,477	1,846,253
Exploration expense	362,402	-
Interest	234,613	324,241
Gain on sale of assets	(44,335)	(3,014,244)
Bad debt	-	44,391
Loss on derivative instruments (Note 8)	-	1,846,611
	14,295,334	10,521,257
Net loss	$ (11,680,027)	$ (8,665,797)
Basic and diluted loss per common share (Note 14)	$ (0.19)	$ (0.24)
Weighted average number of common shares outstanding	63,134,690	36,659,198

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

TRI-VALLEY CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Par Values		Treasury	Capital in	Additional Paid In Capital			
	Preferred Stock	Common Stock	Stock, at Cost	Excess of Par Value	Warrants	Stock Options	Accumulated Deficit	Total
December 31, 2009	$ -	$ 33,190	$ (13,370)	$ 51,469,228	$ -	$ 2,429,722	$ (52,457,665)	$ 1,461,105
Issuance of equity for cash:								
Common stock	-	4,972	-	3,777,266	-	-	-	3,782,238
Series C warrants	-	-	-	-	1,131,078	-	-	1,131,078
Less: issuance costs		-	-	(459,898)	(84,491)	-	-	(544,389)
Exercise of Series C warrants	-	2,401	-	1,046,587	(1,046,587)	-	-	2,401
Exchange of Series A, B and C warrants	-	3,975	-	2,774,289	-	-	-	2,778,264
Issuance of preferred stock	439	-	-	4,384,561	-	-	-	4,385,000
Stock-based compensation (Note 13)	-	204	-	103,653	1,350,678	391,718	-	1,846,253
Exercise of stock options	-	9	-	16,686	-	(14,495)	-	2,200
Purchase of treasury stock	-	-	(25,000)	-	-	-	-	(25,000)
Net loss	-	-	-	-	-	-	(8,665,797)	(8,665,797)
December 31, 2010	439	44,751	(38,370)	63,112,372	1,350,678	2,806,945	(61,123,462)	6,153,353
Issuance of common stock for:								
Cash, net of issuance costs	-	21,398	-	9,454,474	-	-	-	9,475,872
Other	-	41	-	23,931	-	-	-	23,972
Exchange of Series A, B and C warrants	-	1,430	-	-	-	-	-	1,430
	-	157	-	105,155	46,750	266,415	-	418,477

Stock-based compensation (Note 13)								
Retirement of treasury stock	-	(162)	38,370	(38,208)	-	-	-	-
Net loss	-	-	-	-	-	-	(11,680,027)	(11,680,027)
December 31, 2011	$ 439	$ 67,615	$ -	$ 72,657,724	$ 1,397,428	$ 3,073,360	$ (72,803,489)	$ 4,393,077

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

7

TRI-VALLEY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,

	2011	2010
Operating Activities		
Net loss	$ (11,680,027)	$ (8,665,797)
Adjustments to reconcile net loss to net cash from operating activities:		
Write off and impairment loss (Note 4)	2,393,779	140,242
Depreciation, depletion and amortization	683,530	570,020
Stock-based compensation (Note 13)	418,477	1,846,253
Dry hole expense	123,653	-
Loss on derivative instruments (Note 8)	-	1,846,611
Gain on sale of assets	(44,335)	(3,014,244)
Bad debt	-	44,391
Other	23,736	-
Changes in non-cash working capital items:		
(Increase) decrease in accounts receivable (Note 16)	(2,730,877)	673,489
Increase in prepaid and other	(432,355)	(752,809)
Increase in accounts payable and accrued expenses and current portion of asset retirement obligations (Note 16)	750,322	602,764
Increase in settlement of claim (Note 12)	1,500,000	-
Net cash used in operating activities	(8,994,097)	(6,709,080)
Investing Activities		
Capital expenditures	(5,097,221)	(1,992,831)
Proceeds from sale of assets (Note 16)	318,894	4,369,311
Changes in non-cash working capital related to investing activities and other long-term assets	1,290,600	562,500
Net cash provided by (used in) investing activities	(3,487,727)	2,938,980
Financing Activities		
Net proceeds from the issuance of common stock and warrants (Note 8)	9,475,872	5,328,687
Principal payments on debt	(140,781)	(1,245,565)
Proceeds from issuance of debt (Note 5)	3,150,000	-
Purchase of treasury stock	-	(25,000)
Proceeds from exercise of stock options	-	2,200
Net cash provided by financing activities	12,485,091	4,060,322
Net increase in cash	3,267	290,222
Cash at the beginning of the year	581,148	290,926
Cash at the end of the year	$ 584,415	$ 581,148
Supplemental Schedule of Non-Cash Transactions		
Issuance of preferred stock for:		
Debt	$ -	$ 850,000
Partnership interests	-	3,535,000
	$ -	$ 4,385,000

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

TRI-VALLEY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF BUSINESS

Tri-Valley Corporation (“Tri-Valley” or the “Company”) is a crude oil and natural gas exploitation, development and production company engaged in locating and developing hydrocarbon resources in California. The Company is also engaged in early-stage exploration of precious minerals in Alaska. The Company’s principal business strategy is to enhance stockholder value by generating and developing high-potential exploitation resources in the oil and gas and precious minerals areas. The Company is a Delaware corporation which currently conducts its operations through two wholly-owned subsidiaries. The Company’s principal offices are located at 4927 Calloway Drive, Bakersfield, California 93312.

The Company's two wholly-owned subsidiaries are:

Tri-Valley Oil & Gas Co. (“TVOG”) — conducts crude oil and natural gas exploration and production activities at the Pleasant Valley oil sands property near Oxnard, California (“Pleasant Valley”) and the Claflin property within the Edison Field near Bakersfield, California (“Claflin”). TVOG also has interests in gas fields in the Sacramento Valley of northern California. TVOG derives its principal revenue from crude oil and natural gas production.

Select Resources Corporation, Inc. (“Select”) — holds and maintains two precious metal properties. The Shorty Creek and Richardson precious metal properties are exploration-stage gold and other minerals prospects in the State of Alaska.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Going Concern

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and other disclosures in these consolidated financial statements. Actual results may differ from those estimates. In particular, the amounts recorded for depletion and depreciation of the oil and gas properties and accretion for asset retirement obligations are based on estimates of reserves and future costs. By their nature, these estimates, and those related to future cash flows used to assess impairment of oil and gas properties, are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

Certain reclassifications have been made to the prior-year’s financial statements to be in conformity with fiscal year 2011 presentation.

These consolidated financial statements have been prepared in accordance with GAAP applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue operations for at least its next fiscal year. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not give effect to adjustments that may be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

At December 31, 2011, the Company had an accumulated deficit of $72.8 million and negative working capital of $6.7 million. For the year ended December 31, 2011, cash used in operating activities was $9.0 million and the Company expects to incur further losses in the development of its business. Continuing as a going concern is dependent upon attaining future profitable operations to repay liabilities arising in the normal course of operations and accessing additional capital to develop the Company’s properties. The Company intends to finance its future funding requirements through a combination of strategic investors and/or public and private debt and equity markets, either at a parent company level or at the project level. There is no assurance that the Company will be able to obtain such financing on favorable terms, if at all. Without access to additional financing during 2012, there is significant doubt that the Company will be able to continue as a going concern.

Principles of Consolidation

The consolidated financial statements include Tri-Valley and its wholly-owned subsidiaries. Any reference to the Company or Tri-Valley throughout these consolidated financial statements refers to Tri-Valley and its wholly-owned subsidiaries. All significant intercompany transactions among Tri-Valley and its wholly-owned subsidiaries have been eliminated upon consolidation. The Company conducts some of its oil and gas production activities through jointly controlled operations and the consolidated financial statements reflect only the Company’s proportionate interest in such activities.

Accounts Receivable

Accounts receivable consist mainly of receivables from oil and gas purchasers and from joint interest partners on properties the Company operates. For receivables from joint interest partners, the Company typically has the ability to withhold future revenue disbursements to recover non-payment of joint interest billings. Generally, receivables from the sale of oil and gas are collected within two months.

Oil and Gas Properties (Successful Efforts Method)

The Company accounts for its oil and gas exploration and development costs using 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. Unsuccessful exploratory well costs, geological and geophysical costs and costs of carrying and retaining unproved properties are charged to the results of operations when incurred.

Expenditures incurred in drilling exploratory wells are accumulated as work-in-process until the Company determines whether the well has encountered commercially exploitable reserves. If the well has encountered commercial reserves, the accumulated cost is transferred to proved properties; otherwise, the accumulated cost, net of salvage value, is charged to the results of operations. If an exploratory well has encountered commercial reserves but cannot be classified as a proved property within one year after discovery, then the well is considered to be impaired, and the capitalized costs (net of any salvage value) of drilling the well are charged to the results of operations.

Capitalized costs relating to proved properties are depleted using the unit-of-production method, based on proved reserves. Costs of significant unproved properties, wells in the process of being drilled, and development projects are excluded from depletion until such time as the related project is completed and proved reserves are established or, if unsuccessful, impairment is determined.

Mineral Properties

The Company has invested in several mineral properties with exploration potential. All mineral claim acquisition costs and exploration and development expenditures are charged to the results of operations as incurred. Acquisition and exploration costs are capitalized only after persuasive engineering evidence is obtained to support recoverability of these costs upon determination of proven and/or probable reserves based upon dense drilling samples and feasibility studies by a recognized independent engineer. Currently, no amounts have been capitalized.

Other Properties and Equipment

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

Office furniture and equipment	3 – 7 years
Vehicles, rig, machinery and equipment	5 – 10 years

Leasehold improvements are amortized over the life of the lease.

Impairment

Management reviews the Company’s long-lived assets, consisting primarily of oil and gas properties, at least annually and records impairments to proved oil and gas properties, whenever it determines that events or circumstances indicate that the recorded carrying value of such properties may not be recoverable. Proved oil and gas properties are reviewed for impairment on a field-by-field basis, which is the lowest level at which depletion of proved properties is calculated. Management estimates the expected future cash flows of the Company's proved oil and gas properties and compares these undiscounted future cash flows to the carrying amount of the properties to test the carrying amount for recoverability. If the carrying amount exceeds the estimated undiscounted future cash flows, the carrying amount of the proved oil and gas properties is adjusted to fair value. The factors used to determine fair value include, but are not limited to, the present value of future cash flows net of estimated operating and development costs using estimates of reserves, future commodity pricing, future production estimates, anticipated capital expenditures and various discount rates commensurate with the risk associated with realizing the projected cash flows.

Unproved oil and gas properties are assessed periodically for impairment on a property-by-property basis based on such factors as remaining lease terms, drilling results, reservoir performance, commodity price outlooks or future plans to develop acreage and allocate capital. If the results of such assessment indicate impairment, a loss is recognized to the results of operations.

Management assesses the Company's other long-lived assets for impairment whenever indicators of impairment exist, or when it commits to sell the asset. If the results of such assessment indicate impairment, a loss is recognized to the results of operations.

Financial Assets and Liabilities

Financial assets and financial liabilities are measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, loans and receivables, or other financial liabilities.

Financial assets and liabilities designated as held-for-trading are subsequently measured at fair value with changes in those fair values charged immediately to earnings. Cash is classified as held-for-trading. Loans and receivables and other financial liabilities are subsequently measured at amortized cost using the effective interest method. The Company classifies accounts receivable as loans and receivables, and accounts payable and accrued expenses, debt and long-term debt as other financial liabilities. Transaction costs for other long-term financial liabilities are deducted from the related liability and accounted for using the effective interest rate method.

Fair value measurements are classified according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1: Quoted prices are available in active markets for identical assets or liabilities;

Level 2: Quoted prices in active markets for similar assets and liabilities that are observable for the asset or liability; or

Level 3: Unobservable pricing inputs that are generally less observable from objective sources, such as discounted cash flow models or valuations.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

Asset Retirement Obligations

The Company accounts for its future asset retirement obligations by recording the fair value of the liability during the period in which it was incurred. The fair value of the obligation is estimated by discounting expected future cash outflows to settle the asset retirement obligation using a credit-adjusted risk-free interest rate. The asset retirement obligation is accreted through interest expense until it is settled.

The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The increase in carrying value of a property associated with the capitalization of an asset retirement cost is included in either unproved or proved oil and gas properties in the consolidated balance sheets. The Company depletes the amount added to proved oil and gas properties using the units-of-production method. The Company’s asset retirement obligations consist of costs related to the plugging of wells, removal of facilities and equipment and site restoration on its oil and gas properties.

The Company recognizes revisions to either the timing or the amount of the original estimate of undiscounted cash outflows as increases or decreases to the asset retirement obligation. Actual retirement costs are recorded against the obligation when incurred. Any difference between the recorded asset retirement obligations and the actual retirement costs incurred is recorded as a gain or loss in the settlement period.

Income Taxes

The Company follows the liability method of accounting for future income taxes. Under the liability method, income tax assets and liabilities are recorded to reflect the expected future tax consequences of tax loss carry-forwards and temporary differences between the carrying value and the tax basis of the Company’s assets and liabilities. A valuation allowance is recorded if the future benefit of income tax assets, including unused tax losses, is not likely to be ultimately realized. The effect of a change in tax rates on future income tax assets and liabilities is recognized in the period in which the change is substantively enacted.

Revenue Recognition

Crude oil and natural gas revenues are recognized as the title and risk of loss transfers to a third party purchaser, net of royalties, transportation, production tax and cost of diluents, as applicable. Diluents are purchased to reduce the viscosity of the super heavy Pleasant Valley crude oil and increase the API gravity of the resulting blend, as per industry practice.

Stock-based Compensation

Options and warrants to purchase common shares are granted to directors, officers, employees and consultants at current market prices. The fair value of the options and warrants at the time of grant is recognized as a stock-based compensation expense in the results of operations over the vesting period of the option or warrant, with a corresponding increase to additional paid-in capital for stock options or warrants, as applicable. Upon the exercise of the stock options or warrants, consideration paid together with the amount previously recognized in additional paid-in capital for stock options or warrants, is recorded as an increase in common stock issued at par value and capital in excess of par value. In the event that vested options or warrants expire unexercised, the previously recognized stock-based compensation expense associated with such stock options or warrants is not reversed. Forfeitures are estimated at the grant date and are subsequently adjusted to reflect actual forfeitures.

Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Net income (loss) allocated to common stockholders represents net income (loss) applicable to common stockholders adjusted for cumulative dividends on preferred stock not declared as of the period end.

Diluted net income per common share amounts are calculated based on net income, adjusted for cumulative dividends on preferred stock not declared as of the period end, divided by dilutive common shares. Dilutive common shares are arrived at by adding weighted average common shares to common shares issuable on conversion of options and warrants, using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of in-the-money options and warrants (“common stock equivalents”) are used to repurchase common shares at the average market price during the period. As there were net losses for the years ended December 31, 2011 and 2010, common stock equivalents were not included in the diluted computations, as their inclusion would be anti-dilutive.

Net income per share information is determined using the two-class method, which includes the weighted-average number of common shares outstanding during the period and other securities that participate in dividends (“participating security”). The Company considers the preferred stock to be a participating security because it includes rights to participate in dividends with the common stock. In applying the two-class method, net income is allocated to both common stock shares and the preferred stock common stock equivalent shares based on their respective weighted-average shares outstanding for the period. Net losses are not allocated to preferred stock shares.

Loss Contingencies

Contingencies are existing uncertainties that may have financial impact, depending on future events. Loss contingencies are those that may result in the ‘incurrence of a liability’ or the ‘impairment of an asset’. Management makes judgments and estimates regarding possible liabilities for litigation and environmental remediation on a quarterly basis. Management’s judgment is based on the advice and opinions of legal counsel and other advisers and the interpretation of laws and regulations, which can be interpreted differently by regulators or courts of the law. A liability is recognized for these types of loss contingencies only if management can determine (i) that it is probable that an asset has been impaired or a liability has been incurred and (ii) the amount of the loss can be reasonably estimated. A change in the probability of occurrence or the estimated cost of possible liabilities could materially impact the Company’s financial position and results of operations. The Company does not discount loss contingencies to reflect the time value of money that may be settled over a period in excess of one year. Legal fees associated with the loss contingent are accrued to the period in which they are incurred.

Other Comprehensive Income (Loss)

The Company does not have any items of other comprehensive income (loss) for the years ended December 31, 2011 and 2010. Therefore, the net losses are the same as comprehensive net losses for these periods.

Impact of Recently Issued Accounting Standard Updates

In December 2011, the FASB issued Accounting Standards Update (“ASU”) No. 2011-11 “ Disclosures about Offsetting Assets and Liabilities” . The ASU requires additional disclosures about the impact of offsetting, or netting, on a company's financial position, and is effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods, and retrospectively for all comparative periods presented. Under US GAAP, derivative assets and liabilities can be offset under certain conditions. The ASU requires disclosures showing both gross information and net information about instruments eligible for offset in the balance sheet. Management has determined that the provisions of ASU No. 2011-11 will not have a significant impact to the Company's consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08 "Intangibles — Goodwill and Other (Topic 350): Testing Goodwill for Impairment" which will change the testing of goodwill for impairment. These changes provide an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the fair value of a reporting unit is less than its carrying amount. Such qualitative factors may include the following: macroeconomic conditions; industry and market considerations; cost factors; overall financial performance; and other relevant entity-specific events. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test, otherwise no further analysis is required. An entity also may elect not to perform the qualitative assessment and, instead, go directly to the two-step quantitative impairment test. These changes become effective for any goodwill impairment test performed on January 1, 2012 or later, although early adoption is permitted. Management has determined the provisions of ASU No. 2011-08 will not have a significant impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05 " Comprehensive Income (Topic (220): Presentation of Comprehensive Income" which will change the presentation of comprehensive income. These changes give an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements; the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income were not changed. Additionally, no changes were made to the calculation and presentation of earnings per share. These changes become effective on January 1, 2012. Management has determined the provisions of ASU No. 2011-05 will not have a significant impact on the Company's consolidated financial statements.

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04 " Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS"s. The ASU amends previously issued authoritative guidance and requires new disclosures, clarifies existing disclosures and is effective for interim and annual periods beginning after December 15, 2011. The amendments change requirements for measuring fair value and disclosing information about those measurements. Additionally, the ASU clarifies the FASB's intent regarding the application of existing fair value measurement requirements and changes certain principles or requirements for measuring fair value or disclosing information about its measurements. For many of the requirements, the FASB does not intend the amendments to change the application of the existing Fair Value Measurements guidance. Management is currently evaluating the provisions of ASU No. 2011-04 and assessing the impact, if any, it may have on the Company's consolidated financial statements.

NOTE 3 – RECEIVABLES

The following table summarizes the components of current accounts receivable as of December 31, 2011 and 2010:

	2011	2010
Revenue	$ 967,437	$ 516,797
Joint venture partners	6,162,775	5,773,416
Other	736,043	32,552
	7,866,255	6,322,765
Less: long-term portion of receivable from joint venture partners	6,001,319	1,830,317
	$ 1,864,936	$ 4,492,448

Receivables from all joint venture partners were $6.2 million as of December 31, 2011 (2010 - $5.8 million). As of December 31, 2011, TVC OPUS 1 Drilling Program, L.P. ("OPUS") owed the Company $6.0 million incurred by the

Company as the operating partner on behalf of OPUS for costs and expenses related to the development and operation of Pleasant Valley and for the general and administrative expenses of OPUS. The $6.0 million receivable from OPUS will be contributed to a new limited liability company to be jointly-owned by the Company and OPUS, as further described in see Note 7 below, as partial consideration for the Company's equity interest in the limited liability company and was classified as a long-term receivable as of December 31, 2011.

As of December 31, 2010, OPUS owed the Company $5.5 million and $1.8 million of this receivable which was estimated to be collectible from OPUS's share of the Pleasant Valley net operating revenues in excess of a twelve-month period based on forecasted cash flows prepared by the Company's independent petroleum engineers was classified as a long-term receivable.

NOTE 4 – OIL AND GAS PROPERTIES AND OTHER PROPERTY AND EQUIPMENT

The following table summarizes the components of oil and gas properties and other property and equipment as of December 31, 2011 and 2010:

13

	2011	2010
Oil and Gas Properties		
Proved properties	$ 7,888,702	$ 2,461,745
Unproved properties	198,101	1,781,069
	8,086,803	4,242,814
Accumulated depletion	(1,442,423)	(1,225,813)
	6,644,380	3,017,001
Other Property and Equipment		
Land	177,826	177,826
Mineral interests	50,000	50,000
Building	-	45,124
Rig and other machinery and equipment	2,976,800	4,912,622
Vehicles	394,600	634,514
Office furnishings and equipment	356,138	273,279
	3,955,364	6,093,365
Accumulated depreciation	(2,206,245)	(2,391,013)
	1,749,119	3,702,352
	$ 8,393,499	$ 6,719,353

On December 21, 2010, the Company entered into a definitive agreement for the sale of its Admiral Calder calcium carbonate quarry located on Prince of Wales Island in Alaska. The total sales price was $2.5 million, structured in an all-cash transaction. The sales agreement contained standard terms and conditions, including representations and warranties from Select, that are common in the mining industry.

For the year ended December 31, 2011, the Company classified $1.6 million (2010 – nil) from unproved to proved oil and gas properties related to the Company's Claflin property. For the year ended December 31, 2011, the Company wrote off $1.3 million (2010 - $0.1 million) related to expired leases on unproved oil and gas properties and $ 0.4 million (2010 - nil) of other property and equipment.

NOTE 5 – DEBT

The following table summarizes the components of debt as of December 31, 2011 and 2010:

	2011	2010
Secured loans:		
Capital stock of TVOG and Select	$ 3,150,000	$ -
Vehicles	-	13,293
Unregistered, restricted common stock	-	57,276
	3,150,000	70,569
Unsecured loan	448,787	518,999
	3,598,787	589,568
Less: current portion	76,041	134,322
	$ 3,522,746	$ 455,246

Mr. G. Thomas Gamble, former Chairman of the Board of Directors of the Company, made short-term demand loans to the Company in the principal amount of (i) $150,000, bearing simple interest at 10% per annum (ii) $1.0 million, bearing simple interest at 14% per annum, and (iii) through a related trust, $2.0 million, bearing simple interest at 14% per annum. Subsequent to the demand loans, the Company entered into a Pledge and Security Agreement, effective as of November 10, 2011, with Mr. Gamble and his related trust (collectively, the "Secured Parties"), pursuant to which the

Company granted the Secured Parties a lien on and security interest in the Company's capital stock in its two wholly owned subsidiaries, TVOG and Select. On March 30, 2012, a senior secured note was issued to replace and cancel the short-term demand loans with the Secured Parties. The senior secured note will mature on April 30, 2013. Accordingly, the short-term demand loans were classified as long-term debt as of December 31, 2011. See Note 15 for additional information regarding the senior secured note.

The unsecured loan for the purchase of the Company's rig and equipment is repayable in monthly installments until December 30, 2016 and accrues simple interest at 8% per annum.

14

NOTE 6 – ASSET RETIREMENT OBLIGATIONS

As of December 31, 2011, the Company's total estimated undiscounted inflated costs to settle its asset retirement obligations were approximately $1.5 million. These costs are expected to be incurred between 2012 and 2037 and have been estimated using a 1.9% inflation rate and a weighted average credit-adjusted risk-free rate of 8% to 10%.

Asset Retirement Obligations	2011	2010
Beginning of year	$ 206,183	$ 351,013
Liabilities incurred	201,015	-
Liabilities settled or released	(37,690)	(192,618)
Accretion expense	16,395	23,718
Revisions in estimated cash flows	162,963	24,070
	548,866	206,183
Less: current portion	22,881	-
End of year	$ 525,985	$ 206,183

NOTE 7 – COMMITMENTS AND CONTINGENCIES

OPUS Preferred Return Period

The Company is the managing general partner of OPUS and owns working and overriding royalty interests in the Pleasant Valley property jointly owned with OPUS. The Company entered into a non-binding term sheet with the OPUS Special Committee in August 2011, which is in the process of revision, in connection with the formation of a new jointly-owned, limited liability company and the resolution of certain alleged claims and disputed issues by OPUS partners. Such claims, which are referred to as the "Alleged Claims," include allegations by OPUS as an entity relating to charges to OPUS for (i) oil and gas lease acquisition and title defense costs, (ii) turnkey drilling and well completion costs, (iii) fees for the work performed by finders who assisted in the placement of partnership units, (iv) improper distributions to an OPUS partner, and (v) accrued interest on the foregoing amounts over certain periods of time. The Company met with members of the OSC on April 3, 2012 and, in principle, subsequently agreed to a framework for a revision of terms that the parties believe will accomplish the goal of developing the Pleasant Valley property and settle the Alleged Claims against the Company by OPUS related to breaches of the governing OPUS partnership agreements.

In accordance with the proposed revised terms, the Company would contribute its working interests and overriding royalty interests ("ORRI's") in Pleasant Valley and amounts owed to the Company by OPUS as of December 31, 2011 ($6.0 million) to the new limited liability company in exchange for a 25% equity interest in the new limited liability company. OPUS would contribute its working interest in Pleasant Valley to the new limited liability company in exchange for a 75% equity interest in the new limited liability company. As an additional inducement to settle the Alleged Claims, the Company has agreed with the OPUS Special Committee to also assign to OPUS partial working interests in certain undeveloped mineral and oil and gas properties which could be reassigned to the Company upon achieving successful implementation of the Steam Assisted Gravity Drainage, or SAGD, pilot, among other criteria. The Alleged Claims would be settled at the closing of the transaction (the "Closing"), which will be conditioned upon execution of definitive agreements, the ratification of the settlement terms and operating structure of the new limited liability company by the Company's Board of Directors and at least a majority in interest of the OPUS partners. After Closing, OPUS and the Company would disproportionally share the distributable cash from profits generated by the new joint venture limited liability company for a period of time after deployment of the SAGD technology at Pleasant Valley ("OPUS Preferred Return Period") to substantially complete development of the Vaca Tar reservoir within the Pleasant Valley properties. The OPUS Preferred Return Period would be established based upon a period of time during which both parties reasonably expect OPUS may receive compensation for the amount of the Alleged Claims to be settled at the Closing, currently estimated to be $30.4 million (revised from $32.3 million announced on August 19, 2011). However, there will be no guarantee of payment of this amount to OPUS by the Company or the new limited liability company. The OPUS Special Committee and the Company have agreed in principle to settle the Alleged Claims at Closing in this manner, in part, to facilitate potential financing arrangements for the development of Pleasant Valley.

The disproportionate sharing percentages during the OPUS Preferred Return Period have yet to be determined, but management expects that the Company's allocable share of any distributable cash from profits generated by the Pleasant Valley project will significantly decrease, at least for the foreseeable future, in connection with the restructuring of OPUS and the settlement of Alleged Claims with OPUS. After this time period, OPUS and the Company would receive 75% and 25%, respectively, of any net revenues and distributable cash flow from the limited liability company.

See also Note 12.

Operating Lease Commitments

In 2011, the Company expended $0.2 million (2010 – $0.3 million) on operating leases relating to the rental of office space, which expires in 2016. As of December 31, 2011, future net minimum payments for operating leases were:

2012	$ 134,177
2013	138,044
2014	142,027
2015	146,130
2016	111,957
	$ 672,335

Environmental Matters

Except as disclosed in Note 12, the Company has no material accrued environmental liabilities for its sites because it is not probable that a loss will be incurred and, if incurred, the minimum cost and/or amount of loss cannot be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites, and sites identified in the future, if any, could result in material costs being incurred by the Company.

Commitments

The Company has various commitments to hydrocarbon and mineral interest owners for royalties on production, lease payments and/or work commitments in the ordinary course of business to maintain its lease on such properties. Failure to maintain these commitments could result in penalties or a loss of the hydrocarbon or mineral lease.

NOTE 8 – SHAREHOLDERS' EQUITY

The following table summarizes the changes in the Company's outstanding shares of common stock for the years ended December 31, 2011 and 2010:

Common Stock	2011	2010
Beginning of year	44,750,964	33,190,462
Shares issued for cash:		
Private placement	10,070,000	201,440
ATM equity offering	11,328,128	924,095
Registered direct offering	-	3,846,157
Other	40,962	-
Exercise of Series C warrants	-	2,400,808
Exchange of Series A, B and C warrants	1,430,000	3,975,000
Stock-based compensation	157,200	204,000
Exercise of stock options	-	9,002
Retirement of treasury shares	(161,847)	-
End of year	67,615,407	44,750,964

Private Placement

On April 19, 2011, the Company entered into a Stock Purchase Agreement with certain accredited investors to sell and issue an aggregate of 10,070,000 shares of the Company's common stock at a purchase price of $0.50 per share in reliance on Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 promulgated thereunder, resulting in aggregate gross proceeds to the Company of $5.0 million. The Company received net proceeds at the closing of approximately $4.7 million after the deduction of placement agent commissions and offering expenses.

ATM Equity Offering

On October 22, 2010, and again on February 3, 2011, the Company entered into Sales Agreements with an investment banking firm, under which the Company issued and sold shares of common stock for consideration of up to $3.0 million under each agreement, from time to time in an at-the-market, or ATM equity offering program. The Company concluded its first ATM equity offering program on February 9, 2011, through which, in the aggregate, 6,002,399 shares of common stock were sold, resulting in gross proceeds of $3.0 million, and net proceeds of $2.8 million, after deducting placement agent commissions and offering expenses. The Company concluded its second ATM equity offering program on March 30, 2011, through which, in the aggregate, 6,249,824 shares of common stock were sold, resulting in gross proceeds of $3.0 million, and net proceeds of $2.8 million, after deducting placement agent commissions and offering expenses.

Registered Direct Offering

On April 6, 2010, the Company executed a Securities Purchase Agreement with a group of institutional investors to purchase $5.0 million of the Company's common stock and warrants in a registered direct offering of securities. Under the terms of the definitive agreements, the investors purchased 3,846,157 shares of Tri-Valley's common stock at $1.30 per share, for a total of $5.0 million in gross proceeds ($4.6 million net proceeds after share issuance costs). In addition, the investors received Series A warrants to purchase up to 1,153,848 shares of common stock at $1.50 per share for five years and Series B warrants to purchase up to 1,153,848 shares of common stock at $2.14 per share for seven years. And subject to certain limitations, the Company was also obligated to issue to the investors Series C warrants for the purchase of up to 2,403,846 additional shares pursuant to certain purchase price adjustments on July 2, 2010, and on December 1, 2010, that might occur, dependent upon the then current price of the Company's common stock in relation to the original issue price. All of the warrants contained customary adjustments for corporate events such as reorganizations, splits, dividends. The exercise prices of the Series A and B warrants were subject to anti-dilution adjustments in the event of additional issuances of common stock below the exercise price then in effect and were considered to be derivative financial instruments in accordance with ASC 815-40, "Derivatives and Hedging – Contracts in Entity's Own Equity". The Series C warrants were not subject to anti-dilution adjustments and were considered to be equity instruments.

The $4.6 million in net proceeds from the April 6, 2010 registered direct offering were allocated to the common stock and warrants as follows:

		Warrants		
	Common Stock	Series A And B	Series C	Total
Gross proceeds	$ 2,866,351	$ 1,002,571	$ 1,131,078	$ 5,000,000
Less: issuance costs	(214,116)	(74,892)	(84,491)	(373,499)
	$ 2,652,235	$ 927,679	$ 1,046,587	$ 4,626,501

The warrants were valued on the date of issuance with the Black-Scholes option-pricing model using a risk-free interest rate of 2.7% to 3.4%, a volatility factor of 148%, a dividend yield of 0%, a term of five to seven years and at a current price of the underlying common shares of $1.32 per share. The 3,846,157 shares of common stock were valued at the volume weighted average closing price per share for the five trading days immediately prior to the effective date of the Securities Purchase Agreement. The net proceeds of the transaction were allocated to each series of warrants and to the common stock issued based on their respective fair values.

In December 2010 and January 2011, Tri-Valley entered into exchange agreements with six institutional investors for the exchange and cancellation of all their Series A, B and C warrants for shares of the Company's common stock. Under the terms of each of the agreements, the investors exchanged and cancelled warrants to purchase an aggregate of 9,000,975 shares of Tri-Valley's common stock for an aggregate of 5,405,000 shares of the Company's common stock. As of December 31, 2010, all the Series A and B warrants were exchanged or agreed to be exchanged for Tri-Valley's common shares except that the shares for 1,200,000 of Tri-Valley's common stock were not issued until January 2011. Additionally, remaining Series C warrants to purchase 600,962 shares of Tri-Valley's common stock were exchanged for 230,000 shares of the Company's common stock in January 2011.

For the year ended December 31, 2010, the Company recognized $1.8 million of net derivative instrument losses related to the changes in fair values of the Series A and B Warrants and upon the exchange of the Series A and B Warrants for the Company's common stock.

Preferred Stock

The preferred stock outstanding has preference over the Company's common stock with respect to the payment of dividends and distribution of the Company's assets in the event of a liquidation or dissolution. The stockholders of the preferred stock have no general voting rights and are entitled to receive cumulative dividends at the rate of ten percent (10%) per annum of the purchase price of $10.00 per share from and after the original issue date. Such dividends are payable only as and when the Company's Board of Directors declares and pays dividends. The cumulative undeclared and unpaid dividends as of December 31, 2011 were $0.5 million (2010 - $0.1 million).

NOTE 9 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

The Company's financial instruments are comprised of cash, accounts receivable, long-term receivables, accounts payable and accrued liabilities, debt and long-term debt. The Company's cash is transacted in active markets and have been classified using Level 1 inputs. The fair value of long-term receivables is estimated at $5.1 million based on anticipated cash flows using Level 3 inputs. Carrying amounts of other financial instruments approximate their fair value because of the short term maturity of those instruments.

Financial Risk Factors

In the normal course of operations, the Company is exposed to market risks resulting from movements in commodity prices and interest rates, which may result in fluctuations in the fair value or future cash flows of its financial instruments.

Commodity Price Risks

The Company's financial condition, results of operations, and capital resources are highly dependent upon the prevailing market prices of, and demand for, crude oil and natural gas. These commodity prices are subject to wide fluctuations and market uncertainties due to a variety of factors that are beyond the Company's control. Management cannot predict future crude oil and natural gas prices with any degree of certainty. Sustained declines in crude oil and natural gas prices may adversely affect the Company's financial condition and results of operations and may also reduce the amount of net crude oil and natural gas reserves that the Company can produce economically. The Company has not historically engaged in hedging activities or purchases and sales of commodity futures contracts.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. Interest rate risk arises from interest-bearing borrowings which have a variable interest rate. All the Company's current debt obligations bear fixed interest rates thus the Company was not exposed to interest rate risks on its outstanding debt as of December 31, 2011.

Credit Risk

The Company is exposed to credit risk with respect to its cash, accounts receivable and long-term receivables. The maximum exposure to credit risk at December 31, 2011, is represented by the carrying amount of these financial assets.

Management believes the Company's exposure to credit risk related to cash is minimal due to the quality of the financial institutions where the funds are held and the nature of the deposit instruments.

Most of the Company's credit exposures related to receivables are with (i) counterparties in the energy industry for the sale of oil and gas production from properties the Company operates (ii) joint venture partners in properties the Company operates and typically has the ability to withhold future revenue disbursements to recover non-payment of joint interest billings and (iii) insurance claims and other receivables.

For the sale of its oil and gas production the Company is exposed to normal industry credit risks which it manages by only entering into agreements with established entities.

The following table summarizes the components of the Company's accounts receivable as of December 31, 2011:

	2011
Current:	
Revenue	$ 967,437
Joint venture partners	34,193
Other	32,000
	1,033,630
Over 90 Days:	

Revenue	-
Joint venture partners	127,263
Other	704,043
	831,306
	$ 1,864,936

Liquidity Risk

Liquidity risk is the risk that suitable sources of funding for the Company's business activities may not be available to meet the Company's obligations. Since cash flows from existing operations are insufficient to fund current obligations and future capital expenditures, management intends to finance such obligations and future capital projects with a combination of strategic investors and/or public and private debt and equity markets, either at a parent company level or at the project level or from the sale of existing assets. There is no assurance that the Company will be able to obtain such financing on favorable terms, if at all.

The following table summarizes the components of Company's exposure to liquidity risks related to those liabilities that are due within twelve months from December 31, 2011:

	2011
Accounts payable	$ 7,748,006
Amounts due to royalty interest owners and joint venture partners	461,120
Accrued interest	74,425
Accrued payroll	112,690
Other accrued liabilities	212,284
Settlement of claim	1,500,000
Debt	76,041
Asset retirement obligations	22,881
	$ 10,207,447

NOTE 10 – SEGMENT INFORMATION

The Company's businesses were consolidated into two operating segments:

Oil and Gas — This segment captures the Company's crude oil and natural gas exploration and production activities.
Minerals — This segment captures the Company's precious metal mineral exploration activities.

In 2011, management determined that the Company's rig operations and drilling and development segments were no longer consistent with the Company's long-term strategic objectives and combined all assets and operations from those two operating segments into the oil and gas segment. Additionally, the previously reported segment income and loss for the year ended December 31, 2010 was adjusted to reflect the $3.0 million gain on sale of assets to the respective segments to which the gains apply. The tables below reflect the restructuring of the Company's segments for the years ended December 31, 2011 and 2010:

2011

	Oil and Gas	Minerals	Non-Segmented	Total
Segment loss	(3,519,635)	(47,312)	(8,113,080)	(11,680,027)
Revenues	2,347,368	200,042	67,897	2,615,307
Interest expense	-	-	218,218	218,218
Loss on settlement of claim	1,500,000	-	-	1,500,000
Exploration expense	131,641	107,108	-	238,749
Significant non-cash charges:				
Write off and impairment loss	2,031,293	-	362,486	2,393,779
Depreciation, depletion and amortization	216,610	-	466,920	683,530

Stock-based compensation	-	-	418,477	418,477
Exploration expense (dry hole)	123,653	-	-	123,653
Interest expense	16,395	-	-	16,395
Capital expenditures	4,947,770	-	149,451	5,097,221
Identifiable assets as of December 31, 2011	15,968,238	478,927	2,202,090	18,649,255

2010

	Oil and Gas	Minerals	Non-Segmented	Total
Segment income (loss)	935,176	374,985	(9,975,958)	(8,665,797)
Revenues	1,756,570	223	98,667	1,855,460
Interest expense	-	229,627	70,896	300,523
Significant non-cash items:				
Write off and impairment loss	140,242	-	-	140,242
Depreciation, depletion and amortization	-	264,010	306,010	570,020
Stock-based compensation	-	-	1,846,253	1,846,253
Interest expense	23,718	-	-	23,718
Gain on sale of assets	(850,000)	(1,363,104)	(801,140)	(3,014,244)
Loss on derivative instruments	-	-	1,846,611	1,846,611
Capital expenditures	1,905,792	-	87,039	1,992,831
Identifiable assets as of December 31, 2010	10,391,853	430,488	4,179,151	15,001,492

NOTE 11 – INCOME TAXES

As of December 31, 2011, the Company had available net operating loss carry forwards for federal and state tax purposes of $64.2 million and $58.0 million, respectively, which begin to expire in 2025 and 2015, respectively. The Company also had available as of December 31, 2011, federal and state statutory depletion allowance carry forwards of $1.6 million and $0.7 million, respectively, which do not expire.

A reconciliation of the income tax benefit computed at the statutory tax rates to the provision for income taxes as shown in the results of operations for the years ended December 31, 2011 and 2010 is summarized below:

	2011	2010
Statutory federal tax rate	$ 3,971,209	$ 2,984,184
Expected state tax, net of federal	681,459	512,086
Effect of permanent differences	(169,174)	(1,122,252)
Other	438,201	(97,910)
	4,921,695	2,276,108
Change in valuation allowance	(4,921,695)	(2,276,108)
Provision for (recovery of) income taxes	$ -	$ -

Significant components of the Company’s deferred tax assets and liabilities were as follows:

	2011 Assets	2011 Liabilities	2010 Assets	2010 Liabilities
Oil and gas properties and equipment	$ -	$ (1,405,912)	$ -	$ (1,323,237)
Tax loss carry-forward	26,962,437	-	21,967,403	-
Statutory depletion carry-forward	591,266	-	581,930	-
Valuation allowance	(27,553,703)	1,405,912	(22,549,333)	1,323,237
Deferred tax asset (liability)	$ -	$ -	$ -	$ -

A deferred tax liability of $1.3 million was recognized from amounts previously reported as of December 31, 2010 for deferred taxes associated with the timing of the tax deductibility of oil and gas properties and equipment.

Realization of the Company’s net deferred tax assets is dependent on the Company being able to generate sufficient taxable income prior to the expiration of the items giving rise to the net deferred tax assets. Due to the Company’s continuing losses, management has concluded that it is unlikely that there will be sufficient future taxable income to realize the benefits of the temporary differences, including operating loss carry forwards, prior to their expiration. Accordingly, as of December 31, 2011 and 2010, a valuation allowance has been provided for the entire amount of the deferred tax assets and liabilities.

NOTE 12 – LEGAL PROCEEDINGS

Other than ordinary, routine litigation incidental to Tri-Valley's business, the Company was involved in the following material litigation or unasserted claims as of December 31, 2011:

Litigation

Hansen et al. v. Tri-Valley Corporation et al — On May 11, 2010, plaintiffs filed a quiet title action against the Company and a group of lessors known as the "Scholle Heirs." On July 9, 2010, the Company and the Scholle Heirs filed a cross-complaint for quiet title. The cross-complaint sought to affirm the validity of the 50% mineral interest owned by the Scholle Heirs and to affirm the validity of the lease, while plaintiffs' complaint sought to extinguish the mineral interest of the Scholle Heirs and to terminate the lease.

On August 31, 2011, after submission of dueling summary judgment motions, the Court entered summary judgment against the Company and the Scholle Heirs on the title issue declaring that (i) the Scholle Heirs had no mineral rights in the Hansen property and (ii) the lease was not valid. This ruling was based on purchase documents from the 1970s. The purchase documents were previously unknown to the Company and not disclosed to the Company until late 2010. These purchase documents conflict with the publicly available title records that we relied on for acquiring the lease.

On March 15, 2011, plaintiffs filed a second amended complaint containing a single cause of action for slander of title against the Company and the Scholle Heirs, seeking monetary damages of up to $4.5 million as stated in their complaint. See Note 15 for settlement of claim on February 16, 2012.

Pleasant Valley Ranch et al. v. Tri-Valley Corporation et al. — On December 6, 2011, the Company was served with a lawsuit that was filed against the Company on November 29, 2011. The plaintiff is suing the Company for damages on the alleged grounds that, among other things, the Company's oil and gas production operations caused contamination of soil and groundwater on the plaintiff's property and interfered with the sale of plaintiff's property. The plaintiff is seeking to recover damages of at least $8.0 million from the Company and to rescind the Company's drill site surface lease. On January 25, 2012, the Company filed an answer to the complaint and also filed a cross-complaint. The parties are in the initial stages of discovery and management believes that the Company has meritorious defenses and intends to vigorously defend the lawsuit. Management is unable to predict the outcome of this complaint or what impact, if any, a negative outcome might have on the Company's consolidated financial position, results of operations, or cash flows. Accordingly, no provision has been made to the Company's consolidated financial statements as of and for the year ended December 31, 2011.

Unasserted Claims

As discussed in Note 7, the Company entered into a non-binding term sheet with the OPUS Special Committee in August 2011, which is in the process of revision, in connection with the formation of a new jointly-owned, limited liability company and the resolution of the Alleged Claims. Certain OPUS investors have expressed discontent with the proposed settlement terms and have threatened to sue the Company and/or report their allegations to federal and state regulators. The threatened claims include allegations of fraudulent inducement to contract, violations of applicable federal and state broker-dealer registration rules, and violations of federal and state antifraud rules in connection with the sale of OPUS securities. The Company believes that the framework for revised settlement terms being negotiated with the OPUS Special Committee, which will be voted on by the OPUS partners, are fair and reasonable in light of all known facts and circumstances. However, the Company cannot predict the possible outcome, nor quantify the effect, of such a suit or the costs of defense if a threatened suit is actually filed. If such a suit is filed, the Company will analyze any and all defenses it might have relating thereto. An adverse outcome against the Company could have a material and adverse effect on the Company and its subsidiaries. See also Note 15.

NOTE 13 – STOCK-BASED COMPENSATION

In June 2011, the Company's shareholders approved the 2011 Omnibus Long-Term Incentive Plan ("Omnibus Plan") replacing the Company's 2005 Stock Option Plan ("2005 Plan"). Upon the effective date of the Omnibus Plan, no new awards may be granted from the 2005 Plan. Both plans together hereinafter will be referred to as the "equity incentive plans". Under the Omnibus Plan, the Company may issue up to seven million shares of common stock (excluding awards previously granted from the 2005 Plan) in the aggregate for stock options, stock appreciation rights, restricted and unrestricted stock, restricted stock units or other stock-based performance awards. Stock options are issued at not less than the closing price for the Company's common stock on the date of grant and are conditional on continuation of employment or providing services. Expiration and vesting periods are set at the discretion of the Company's Board of Directors, but typically vest over one to four years and expire from three to no more than ten years from the date of issue.

The Company has outstanding common stock options issued to employees, directors and other service providers pursuant to its equity incentive plans. As of December 31, 2011, no awards have been granted for stock appreciation rights or restricted stock units. The Company measures the fair value at the grant date for stock option awards on the date of the grant and recognizes stock-based compensation expense over the requisite service or vesting period. The fair value of stock options is calculated using the Black-Scholes option-pricing model.

The following table summarizes changes in the Company's outstanding stock options issued pursuant to the equity incentive plans for the years ended December 31, 2011 and 2010:

	2011			2010		
Outstanding	Number of Stock Options		Weighted Average Exercise Price	Number of Stock Options		Weighted Average Exercise Price
Beginning of year	1,435,500	$	4.25	2,490,500	$	3.93
Granted	135,000	$	0.65	210,000	$	0.89
Exercised	-	$	-	(17,000)	$	1.10
Forfeited	(560,000)	$	5.34	(1,248,000)	$	3.07
End of year	1,010,500	$	3.16	1,435,500	$	4.25
Weighted average fair value of stock options granted during the year		$	0.59		$	0.81

As of December 31, 2011, there were approximately 274,750 unvested stock options outstanding with unrecognized stock-based compensation expense of $0.2 million and 6,950,000 common shares were available for issuance pursuant to the Omnibus Plan.

Pursuant to the Company's executive incentive plans, the Company's Board of Directors received 127,200 unrestricted shares of common stock during the year ended December 31, 2011 at $0.71 per share as part of their annual compensation (2010 – 30,000 common shares at $1.05 per share). Additionally, for the year ended December 31, 2010, t he Company issued 174,000 restricted shares of common stock at $0.42 per share to five employees in recognition of extraordinary services performed during the year.

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2011:

	Stock Options Outstanding				Stock Options Exercisable			
Range of Prices	Number of Options	Weighted Average Remaining Contractual Life (years)		Weighted Average Exercise Price	Number of Options	Weighted Average Remaining Contractual Life (years)		Weighted Average Exercise Price
$0.50 - $0.75	185,000	5.7	$	0.63	40,000	5.1	$	0.63
$0.76 - $1.00	160,000	3.5	$	0.98	60,250	3.5	$	0.98
$1.01 - $2.50	270,500	0.5	$	1.41	240,500	0.5	$	1.37
$2.51 - $6.50	395,000	5.4	$	6.41	395,000	5.4	$	6.41
	1,010,500	3.9	$	3.16	735,750	3.6	$	4.00

For the years ended December 31, 2011 and 2010, the Company issued warrants to former Company executives in accordance with their executive retirement agreements from equity compensation plans not approved by the Company's shareholders as summarized below:

	2011			2010		
Outstanding	Number of Warrants		Weighted Average Exercise Price	Number of Warrants		Weighted Average Exercise Price
Beginning of year	1,135,000	$	1.35	-	$	-
Granted	125,000	$	0.50	1,135,000	$	1.35
Exercised	-	$	-	-	$	-
Forfeited	-	$	-	-	$	-
End of year	1,260,000	$	1.26	1,135,000	$	1.35
Exercisable, end of year	1,260,000	$	1.26	1,135,000	$	1.35
Weighted average remaining contractual life (years)	2.6			3.7		

22

The fair value of each stock option and warrant award was estimated on the date of grant using the Black Scholes option pricing formula based on management's estimate of requisite service periods. The fair values are charged to the results of operations based on vesting dates with the following weighted average assumptions for the years presented:

	2011		2010	
	Stock Options	Warrants	Stock Options	Warrants
Expected life (in years)	5.6	2.5	5.0	4.0
Volatility	138.0%	138.5%	148.0%	148.0%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free rate	1.98%	0.7%	1.7%	1.6%

NOTE 14 – NET LOSS PER SHARE

The calculation of basic net loss per common share for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Net loss	$ (11,680,027)	$ (8,665,797)
Cumulative, undeclared preferred stock dividends	(523,045)	(88,750)
Net loss allocated to common stockholders	$ (12,203,072)	$ (8,754,547)
Weighted average number of common shares outstanding	63,134,690	36,659,198
Basic and diluted loss per common share	$ (0.19)	$ (0.24)

The following common stock equivalents were excluded from the computation of the net loss per common share for the years ended December 31, 2011 and 2010 as their effect would have been anti-dilutive:

	2011	2010
Common stock options	1,010,500	1,435,500
Warrants	1,260,000	1,135,000

NOTE 15 – SUBSEQUENT EVENTS

Securities and Exchange Commission ("SEC") Subpoenas

On February 2, 2012, the Company and OPUS each received a subpoena issued by the staff of the SEC seeking documents and data for the period from January 1, 2002 to the present, relating to their financial condition, results of operations, transactions, activities, business, and offer and sale of securities of the Company and OPUS. The SEC staff is conducting a non-public, fact-finding inquiry into possible violations of the federal securities laws, and this investigation does not represent a conclusion by the staff that there have been any violations of the federal securities laws nor whether the staff would conclude that any enforcement action is appropriate. The Company is cooperating with the staff's request and is in the process of responding to the subpoena. The Company has consulted with the OPUS Special Committee on this matter. Management is unable to predict what action, if any, might be taken in the future by the SEC or its staff as a result of the matters that are the subject of these subpoenas or what impact, if any, the cost of responding to this staff inquiry might have on the Company's consolidated financial position, results of operations, or cash flows. Accordingly, no provision has been made to the Company's consolidated financial statements as of and for the year ended December 31, 2011. The Company's cooperation with the SEC in its inquiry is consistent with the Company's decision to address and resolve various legacy issues of the Company and OPUS.

Debt

On March 30, 2012, the Company and Mr. G. Thomas Gamble's related trust (the "Gamble Trust") entered into definitive agreements for the issuance of a senior secured note to the Gamble Trust in the amount of $3,298,310 ("Senior Secured Note") (which includes interest accrued on the short-term demand loans to March 1, 2012) to replace and cancel three short-term demand loans in the amount of $3,150,000 made to the Company by Mr. Gamble, former Chairman of the Board of Directors of the Company, and the Gamble Trust in 2011. The Senior Secured Note will mature on April 30, 2013 and bears interest at 14% per annum. The Senior Secured Note was accompanied by a warrant for the Gamble Trust to purchase 3,000,000 shares of the Company's common stock, at an exercise price of $0.19 per share exercisable for a period of five (5) years from March 30, 2012.

As an inducement to the Gamble Trust to provide long-term funding to the Company when no other long-term funding was available to the Company on reasonably favorable terms, the Company assigned to the Gamble Trust, in perpetuity, (i) 2.0% of its overriding royalty interests ("ORRI's") on the Claflin lease, (ii) 1.0% of its ORRI's on the other specified leases, and (iii) 1.0% of its ORRI's on any other currently held or hereafter acquired lease within a specified area of mutual interest, in each case with the allocation of proceeds under the ORRI assignments to commence after all obligations under the Senior Secured Note are paid in full.

The Senior Secured Note is secured by, among other things, a pledge by the Company of its capital stock in TVOG and in Select, with a general continuing guaranty from TVOG and Select secured by the pledge of a security interest in certain of TVOG's oil and gas leases, including the Claflin property.

The ORRI's and pledge of a security interest in certain of TVOG's oil and gas leases do not include any oil and gas leases relating to Pleasant Valley.

On April 3, 2012, the Gamble Trust loaned the Company $1.5 million bearing simple interest at 14% per annum and due on April 30, 2013 (the "Additional Note"), on the express condition that the Additional Note would be combined with the Senior Secured Note. The Company's obligations under the Additional Note will be secured by the same collateral that currently secures the Senior Secured Note. The Company also agreed to issue the Gamble Trust an additional warrant to purchase 1,365,000 shares of the Company's common stock (the "Additional Warrant"), at an exercise price per share equal to the closing price of the common stock on the last trading day prior to issuance, plus $0.01, subject to approval of the application to NYSE Amex for the listing of the shares of common stock underlying the Additional Warrant. Once issued, the Additional Warrant will be exercisable for a period of five (5) years from the date of issuance. The Company used the proceeds from the Additional Note to settle its pending litigation with the plaintiffs in Hansen et al. v. Tri-Valley Corporation et al. as indicated below.

Litigation

Hansen et al. v. Tri-Valley Corporation et al — Before trial was to start on March 5, 2012, a mediation session was held on February 16, 2012, at which time the parties entered into a settlement agreement. Pursuant to the settlement agreement, the Company agreed to pay the plaintiffs the sum of $1.5 million in return for a mutual release that pertains to all claims asserted in the complaint and a dismissal of this lawsuit with prejudice. A provision of $1.5 million for settlement of the claim was made to the Company's consolidated financial position and results of operations as of and for the year ended December 31, 2011. Payment of the settlement amount was made on April 3, 2012.

OPUS Preferred Return Period

The Company's management and the OPUS Special Committee met on April 3, 2012 and, in principle, subsequently agreed to a framework for a revision of terms to potentially settle the Alleged Claims against the Company by OPUS related to breaches of the governing OPUS partnership agreements. Please see Note 7 for additional detail.

NOTE 16 – PRESENTATION OF THE BALANCE SHEET AND STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2010

The Company noted two errors in the presentation of the Consolidated Balance Sheet as of December 31, 2010 and the Consolidated Statement of Cash Flows for the year ended December 31, 2010 contained in the Company's Annual Report on Form 10-K for 2010.

The first presentation error was due to offsetting $0.3 million of amounts due to royalty interest owners and joint venture partners for their share of production revenue against revenue receivable from third-party purchasers of oil and gas production generated from properties operated by the Company. Since there is no right to offset these payables and receivables due to, or from, different third parties, no offset should have been made in the presentation of the Company's financial position and cash flows as of and for the year ended December 31, 2010.

The second presentation error was a result of incorrectly including $2.6 million of the joint venture partner's share of proceeds from the sale of the Belridge and Edison properties as being the Company's share of proceeds from the sale of assets in the presentation of the Company's cash flows for the year ended December 31, 2010.

Management has concluded that the presentation errors were immaterial to the fair presentation of the audited consolidated financial statements contained in the Company's Annual Report on Form 10-K for 2010. The effects of the presentation errors are summarized in the table below:

Consolidated Balance Sheet	December 31, 2010 As Previously Reported	Correction	As Revised
Accounts receivable	4,178,133	314,315	4,492,448
Current assets	5,375,059	314,315	5,689,374
Total assets	14,687,177	314,315	15,001,492
Accounts payable and accrued expenses	7,738,073	314,315	8,052,388
Current liabilities	7,872,395	314,315	8,186,710
Total liabilities	8,533,824	314,315	8,848,139
Total liabilities and stockholders' equity	14,687,177	314,315	15,001,492

Consolidated Statement of Cash Flows	Year Ended December 31, 2010 As Previously Reported	Correction	As Revised
(Increase) decrease in accounts receivable	(2,190,826)	2,864,315	673,489
Increase in accounts payable and accrued expenses and current portion of asset retirement obligation	917,079	(314,315)	602,764
Net cash used in operating activities	(9,259,080)	2,550,000	(6,709,080)
Proceeds from the sale of assets	6,919,311	(2,550,000)	4,369,311
Net cash provided by investing activities	5,488,980	(2,550,000)	2,938,980

There were no effects to the Company's results of operations or total cash flows for the year ended December 31, 2010 as a result of these presentation errors.

NOTE 17 – SUPPLEMENTAL DISCLOSURES ABOUT OIL AND GAS ACTIVITIES (UNAUDITED)

Oil and Gas Reserves

The following estimates of proved oil and gas reserves represent interests owned by the Company located solely in the United States.

Proved reserves are those quantities of crude oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations, prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. Projects to extract the hydrocarbons must have commenced, or the operator must be reasonably certain it will commence the projects within a reasonable time.

Proved reserves are further classified as either developed or undeveloped. Proved developed reserves are proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well, and through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well. Proved undeveloped reserves are proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

Disclosures of oil and gas reserves, which follow, are based on estimates prepared by independent petroleum engineers. Such analyses are subject to numerous uncertainties inherent in the estimation of quantities of proved reserves and in the projection of future rates of production and the timing of development expenditures. These estimates do not include probable or possible reserves.

These estimates are furnished and calculated in accordance with Accounting Standards Codification 932 Extractive Activities – Oil and Gas (section 235-55) formerly SFAS No. 69, " Disclosures About Oil and Gas Producing Activities ". Because of unpredictable variances in expenses and capital forecasts, crude oil and natural gas price changes, largely influenced and controlled by U.S. and foreign government actions, and the fact that the basis for such estimates vary significantly, management believes the usefulness of these projections is limited. Estimates of future net cash flows presented do not represent management's assessment of future profitability or future cash flows to the Company. Management's investment and operating decisions are based upon reserve estimates that include proved reserves as well as probable reserves, and upon different price and cost assumptions from those used here. It should be recognized that applying current costs and prices and a ten percent standard discount rate does not convey fair market value. The discounted amounts arrived at are only one measure of the value of proved reserves.

The changes in the Company's net proved oil reserves for the years ended December 31, 2011 and 2010 were as follows:

Net proved reserves (Bbls)	2011	2010
Beginning of year	3,054,836	3,020,710
Revisions of previous estimates	(1,869,151)	96,996
Divestitures	-	(37,074)
Production	(29,785)	(25,796)
End of year	1,155,900	3,054,836
Proved developed reserves, end of year (Bbls)	262,300	316,333

Standardized Measure of Discounted Future Net Cash Flows

A standardized measure of discounted future net cash flows is presented below for the years ended December 31, 2011 and 2010.

The future net cash inflows were developed based on the following:

(1) Estimates were made of quantities of proved reserves and the future periods during which they are expected to be produced based on year-end economic conditions.
(2) The estimated revenue streams from future production of proved reserves were computed using 12 month historical average prices.
(3) The resulting future revenue streams were reduced by estimated future costs to develop and to produce proved reserves, based on year end cost estimates.
(4) The resulting future net revenue streams were reduced to present value amounts by applying a ten percent discount.

Disclosure of principal components of the standardized measure of discounted future net cash flows provides information concerning the factors involved in making the calculation. In addition, the disclosure of both undiscounted and discounted net cash flows provides a measure of comparing proved oil and gas reserves both with and without an estimate of production timing. The standardized measure of discounted future net cash flows relating to proved reserves reflects estimated income taxes.

	2011	2010
Future cash inflows	$ 98,036,700	$ 219,409,376
Future production costs	(27,704,100)	(88,824,864)
Future development and restoration costs	(8,319,100)	(16,604,100)
Future income taxes	-	-
Future net cash flows	62,013,500	113,980,412
10% annual discount (1)	(22,057,400)	(51,378,601)
Standardized measure (1)	$ 39,956,100	$ 62,601,811
Average sale price ($/Bbl)	$ 84.81	$ 71.82

(1) An error was made in the previously reported 'Standardized measure' for 2010 as the '10% annual discount' was incorrectly reported as the 'Standardized measure' and vice versa. This error has been corrected in the preparation of this table.

Changes in Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves

This statement discloses the sources of changes in the standardized measure from year to year. The amounts reported as "Net changes in sales prices and production costs" represent the present values of changes in sales prices and production costs multiplied by estimates of proved reserves as of the beginning of the year. The "accretion of discount" was computed by multiplying the ten percent discount factor by the standardized measure as of the beginning of the year before income tax effects. "Revisions of previous quantity estimates" are expressed at year-end prices. The "Net change in income taxes" is computed as the change in present value of future income taxes.

Standardized measure	2011	2010
Beginning of year	$ 62,601,811	$ 44,251,822
Sales of oil and gas produced, net of production costs	(532,963)	(249,136)
Revisions of estimates of reserves provided in prior years:		
Net changes in sales prices and production costs (1)	31,975,530	16,336,793
Revisions of previous quantity estimates	(61,391,612)	5,678,992
Property divestitures	-	(374,310)
Development costs incurred during the period that reduced future development costs	4,459,384	-
Changes in estimated future development costs	3,072,980	1,410,594
Accretion of discount (2)	6,260,181	4,425,182
Income taxes (1)	-	-
Changes in production rates (timing) and other (2)	(6,489,211)	(8,878,126)
Net increase (decrease) (2)	(22,645,711)	18,349,989
End of year (2)	$ 39,956,100	$ 62,601,811

(1) Amounts reported as ‘Income taxes’ for 2010 are production taxes and accordingly have been correctly included in ‘Net changes in sales and production costs’ in the preparation of this table.

(2) As indicated in the footnote to the table for the ‘Standardized Measure of Discounted Future Net Cash Flows’, an error was made in the previously reported ‘Standardized measure’ for 2010. Corrections to items for the changes in the standardized measure for 2010 have been reflected in the preparation of this table.

The following costs were incurred in oil and gas property acquisition, exploration, and development activities for the years ended December 31, 2011 and 2010:

	2011	2010
Property acquisitions:		
Proved properties	$ -	$ -
Unproved properties	67,310	-
Development	4,654,968	-
Exploration	-	1,905,792
	$ 4,722,278	$ 1,905,792

The results of operations from oil and gas producing activities for the years ended December 31, 2011and 2010 were as follows:

	2011	2010
Oil and gas revenue	$ 2,347,368	$ 1,756,570
Production costs	(1,814,405)	(1,507,434)
Depletion	(216,610)	-
Write off and impairment loss	(1,316,010)	(85,653)
Exploration expense	(362,402)	-
Results of operations from producing activities	$ (1,362,059)	$ 163,483
Depletion rate ($/Bbl)	$ 34.59	$ -

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) and (2). Financial Statements and Financial Statement Schedule

Reference is made to Part II Item 8 “Financial Statements and Supplementary Data”, of this Annual Report, where these documents are listed.

(a) (3) Exhibits

Exhibit Number	Description of Exhibit
23.1*	Consent of Brown Armstrong Accountancy Corporation, dated May 15, 2012.
31.1*	Certification Pursuant to Rule 13a-14(a) / 15d-14(a).
31.2*	Certification Pursuant to Rule 13a-14(a) / 15d-14(a).
32.1**	Certification Pursuant to 18 U.S.C. §1350.
32.2**	Certification Pursuant to 18 U.S.C. §1350.

* Filed herewith.
** Furnished herewith and not “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

May 15, 2012	By: /s/ Maston N. Cunningham Maston N. Cunningham President and Chief Executive Officer
May 15, 2012	By: /s/ Gregory L. Billinger Gregory L. Billinger Interim Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

May 15, 2012	By: /s/ Paul W. Bateman Paul W. Bateman, Director & Chairman of the Board of Directors
May 15, 2012	By: /s/ Edward M. Gabriel Edward M. Gabriel, Director
May 15, 2012	By: /s/ Henry Lowenstein Henry Lowenstein, Ph.D., Director
May 15, 2012	By: /s/ Loren J. Miller Loren J. Miller, Director