

TRI VALLEY CORP
Form 10-Q/A
November 17, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

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

For the Quarterly Period Ended June 30, 2011

Commission File No. 001-31852

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

Delaware
(State or other jurisdiction of incorporation or
organization)

94-1585250
(I.R.S. Employer Identification Number)

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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", "non-accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of August 19, 2011, the Registrant had 67,615,407 shares of common stock (\$0.001 par value) and 438,500 shares of Series A preferred stock (\$0.001 par value) outstanding.

EXPLANATORY NOTE

This Quarterly Report on Form 10-Q/A amends the quarterly report on Form 10-Q for the period ended June 30, 2011, originally filed by Tri-Valley Corporation (“Company”) with the Securities and Exchange Commission (“SEC”) on August 19, 2011. The following items have been amended:

PART I—Item 1. Consolidated Financial Statements

PART I—Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

PART I—Item 4. Controls and Procedures

PART II—Item 1 Legal Proceedings

PART II—Item 1 Risk Factors

PART II—Item 6 Exhibits

As disclosed in a Current Report on Form 8-K the Company filed with the SEC on October 24, 2011, the Company determined on October 18, 2011 that the Company’s previously filed financial statements for: (i) the fiscal quarter ended June 30, 2010 included in the Form 10-Q filed with the SEC on August 2, 2010, (ii) the fiscal quarter ended September 30, 2010 included in the Form 10-Q filed with the SEC on November 3, 2010, (iii) the fiscal year ended December 31, 2010 included in the Form 10-K filed with the SEC on March 22, 2011, (iv) the fiscal quarter ended March 31, 2011 included in the Form 10-Q filed with the SEC on May 9, 2011 and (v) the fiscal quarter ended June 30, 2011 included in the Form 10-Q filed with the SEC on August 19, 2011, needed to be restated to correct the valuation of, and accounting for, the common stock and warrants issued by the Company in a registered direct offering of securities in April 2010, the accounting for incremental and direct costs incurred to issue common stock and the acquisition of assets from the TVC OPUS 1 Drilling Program, L.P as further discussed below.

The Company performed a re-assessment of the valuation of common stock and warrants issued in connection with its April 2010 registered direct offering (see December 31, 2010 Form 10-K/A Part II, Item 8. Financial Statements and Supplementary Data, Note 11 – Common Stock and Warrants) and concluded that the values assigned to the common stock and warrants issued were overstated by \$6.5 million. The net proceeds from the registered direct offering of \$4.6 million (\$5.0 million gross proceeds less \$0.4 million of stock issuance costs) should have been allocated to the common stock and each series of warrants issued based upon their relative values at the time of issuance. This decrease in the recorded values of the common stock and warrants resulted in a decrease of an equal amount in charges made to the results of operations for the year ended December 31, 2010 (i.e. a decrease in Warrant Expense of \$6.1 million and a decrease in General & Administrative expense of \$0.4 million).

The Company performed a re-assessment of its accounting for the Series A, B and C warrants issued in connection with its April 2010 registered direct offering and concluded that the Series A and B Warrants were within the scope of Accounting Standards Codification 815-40, Derivatives and Hedging – Contracts in Entity’s Own Equity (“ASC 815-40”), formerly Emerging Issues Task Force Issue No. 07-05, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock. ASC 815-40 states, among other things, that contingent and other adjustment features in equity-linked financial instruments are consistent with equity indexation if they are based on variables that would be inputs to a "plain vanilla" option or forward pricing model and they do not increase the settlement amount or the contract’s exposure to those variables. The Company’s Series A and B warrants issued in April 2010 were initially linked to the Company’s own equity shares (i.e. exercise prices of \$1.50 per share and \$2.15

per share, respectively); however, the Series A and B warrant holders had protective pricing features, whereby the conversion price reset to the price per share received by the Company if the Company subsequently issued common stock at a price per share less than the \$1.30 per share paid by the investors in connection with the April 2010 registered direct offering. Resetting the conversion price based on a price per share received from other sales of common stock is not an input to an option pricing model and thus the fair value of the Series A and B warrants were not linked to the Company's common stock. Accordingly, the Series A and B warrants should have been accounted for as derivative financial liabilities, measured at a fair value of \$0.9 million at the date of issuance, with changes in fair value recognized as a gain or loss for each reporting period thereafter. All of the Series A and B warrants were exchanged (or agreed to be exchanged) for common stock of the Company as at December 31, 2010 and the Company recognized \$1.8 million of losses on these derivative instruments for the year ended December 31, 2010 (see December 31, 2010 Form 10-K/A Part II, Item 8. Financial Statements and Supplementary Data, Note 11 – Common Stock and Warrants). The Series C warrants did not have similar protective pricing features that are not linked to the Company's common stock and were appropriately accounted for in equity as originally reported.

The Company performed a re-assessment of its accounting for stock issuance costs incurred in connection with its April 2011 private placement and various at-the-market offerings of common stock (see Part I, Item 1. Financial Statements, Note 5- Changes in Securities). The Company determined that \$0.2 million and \$0.6 million for the year ended December 31, 2010 and six-month period ended June 30, 2011, respectively, of stock issuance costs were incorrectly charged to the results of operations and should have been recorded as a reduction in the proceeds received from the sales of common stock (i.e. capital in excess of par value).

In the six-month period ended June 30, 2011, the Company issued warrants to a certain former executive in connection with his retirement agreement as further detailed in Part I, Item 1. Financial Statements, Note 6 – Stock-Based Compensation. The Company charged the fair market value on the date of issuance of these warrants to Warrant Expense in the results of operations for the six-month period ended June 30, 2011. The amount previously reported as Warrant Expense associated with these warrants has been reclassified to Stock-Based Compensation in the results of operations as part of the amendments in this Form 10-Q/A.

The Company performed an analysis of equipment in service on its Claflin property. It was determined that two steam generators with a fair value of \$1.7 million were acquired from the TVC OPUS 1 Drilling Program, L.P. in the second quarter of 2010 and the first quarter of 2011 which had not been recognized in the Company's consolidated financial statements. The correction of this acquisition of equipment is included as part of the amendments in this form 10-Q/A.

The following tables show the effects of the restatement on the Company's Condensed Consolidated Balance Sheet as of June 30, 2011 and Condensed Consolidated Statement of Operations and Condensed Consolidated Statement of Cash Flows for the six-month period ended June 30, 2011:

CONDENSED CONSOLIDATED BALANCE SHEET	As of June 30, 2011	
	As Previously Reported	As Restated
Property and Equipment - Net		
Proved Properties, Successful Efforts Method	3,847,873	6,097,873
Other Property and Equipment	2,717,908	2,155,408
Other Assets		
Long-Term Receivable from Joint Venture Partners	3,060,417	1,372,917
Stockholders' Equity		
Capital in Excess of Par Value	78,137,630	72,655,693
Accumulated Deficit	(71,085,320)	(65,603,386)
	For the Six Months Ended	
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS	June 30, 2011	
	As Previously Reported	As Restated
Costs and Expenses		
General & Administrative	3,835,055	3,202,398
Stock-Based Compensation (previously reported as Stock Option Expense)	193,038	206,038
Warrant Expense	13,000	-
Total Costs and Expenses	6,336,171	5,703,514
Net Loss	(5,112,581)	(4,479,924)
Basic Loss Per Common Share	(0.09)	(0.08)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	For the Six Months Ended	
	As Previously Reported	June 30, 2011 As Restated
Cash Flows from Operating Activities		
Net Loss	(5,112,581)	(4,479,924)
Stock-Based Compensation (previously reported as Stock Option Expense)	193,038	206,038
Warrant Expense	13,000	-
Net Cash Used in Operating Activities	(6,704,157)	(6,071,500)
Cash Provided (Used) by Investing Activities		
Capital Expenditures	(2,453,531)	(3,578,531)
Decrease in Accounts Receivable from Joint Venture Partners	-	1,125,000
Cash Flows from Financing Activities		
Net Proceeds from the Issuance of Common Stock	10,108,529	9,475,872
Net Cash Provided by Financing Activities	10,003,552	9,370,895

Except as described above, no other amendments are being made to the disclosures presented in the original Form 10-Q. This amended Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q, or modify or update the disclosures contained therein in any other way other than as required to reflect the amendments discussed above. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-Q with the SEC on August 19, 2011.

TRI-VALLEY CORPORATION

TABLE OF CONTENTS

	Page
<u>PART</u> <u>Financial Information</u>	1
<u>I.</u>	
<u>ITEM</u> <u>Consolidated Financial Statements</u>	1
<u>1.</u>	
<u>ITEM</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>2.</u>	
<u>ITEM</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	20
<u>3.</u>	
<u>ITEM</u> <u>Controls and Procedures</u>	20
<u>4.</u>	
<u>PART</u> <u>Other Information</u>	20
<u>II.</u>	
<u>ITEM</u> <u>Legal Proceedings</u>	20
<u>1.</u>	
<u>ITEM</u> <u>Risk Factors</u>	21
<u>1A.</u>	
<u>ITEM</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
<u>2.</u>	
<u>ITEM</u> <u>Other Information</u>	24
<u>5.</u>	
<u>ITEM</u> <u>Exhibits</u>	27
<u>6.</u>	
<u>Signatures</u>	28

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

TRI-VALLEY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS

	June 30, 2011 (Restated)	December 31, 2010 (Restated)
Current Assets		
Cash	\$ 1,523,512	\$ 581,148
Accounts Receivable - Trade	364,410	202,482
Prepaid Expenses	694,073	615,778
Accounts Receivable from Joint Venture Partners	3,943,099	3,943,099
Accounts Receivable - Other	450,712	32,552
Total Current Assets	6,975,806	5,375,059
Property and Equipment - Net		
Proved Properties, Successful Efforts Method	6,097,873	1,235,932
Unproved Properties, Successful Efforts Method	712,831	1,781,069
Other Property and Equipment	2,155,408	3,702,352
Total Property and Equipment - Net	8,966,112	6,719,353
Other Assets		
Deposits	403,752	526,749
Investments in Joint Venture Partnerships	23,285	23,285
Goodwill	212,414	212,414
Long-Term Receivable from Joint Venture Partners	1,372,917	1,830,317
Total Other Assets	2,012,368	2,592,765
Total Assets	\$ 17,954,286	\$ 14,687,177

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

TRI-VALLEY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2011 (Restated)	December 31, 2010 (Restated)
Current Liabilities		
Notes Payable	\$ 70,212	\$ 134,322
Accounts Payable - Trade and Accrued Expenses	5,922,663	7,738,073
Total Current Liabilities	5,992,875	7,872,395
Non-Current Liabilities		
Asset Retirement Obligation	192,379	206,183
Long-Term Portion of Notes Payable	414,380	455,246
Total Non-Current Liabilities	606,759	661,429
Total Liabilities	6,599,634	8,533,824
Stockholders' Equity		
Series A Preferred Stock - 10.00% Cumulative; \$0.001 par, \$10.00 liquidation value; 20,000,000 shares authorized; 438,500 shares outstanding	439	439
Common Stock, \$0.001 par value; 100,000,000 shares authorized; 67,615,407 and 44,729,117 at June 30, 2011, and December 31, 2010, respectively.	67,615	44,730
Less: Common Stock in Treasury, at cost; 161,847 and 21,847 at June 30, 2011 and December 31, 2010, respectively.	(129,370)	(38,370)
Capital in Excess of Par Value	72,655,693	63,112,393
Warrants	1,363,678	1,350,678
Additional Paid in Capital - Stock Options	2,999,983	2,806,945
Accumulated Deficit	(65,603,386)	(61,123,462)
Total Stockholders' Equity	11,354,652	6,153,353
Total Liabilities and Stockholders' Equity	\$ 17,954,286	\$ 14,687,177

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011 (Restated)	2010 (Restated)	2011 (Restated)	2010 (Restated)
Revenues				
Sale of Oil and Gas	\$ 474,099	\$ 465,216	\$ 1,132,057	\$ 920,989
Interest Income	231	904	420	2,019
Gain on Sale of Asset	17,123	1,082,693	27,732	1,673,492
Other Income	11,232	7,810	63,381	15,965
Total Revenues	502,685	1,556,623	1,223,590	2,612,465
Costs and Expenses				
Mining Exploration Expenses	64,242	85,561	105,595	224,389
Production Costs	459,597	247,177	909,130	532,554
General & Administrative	1,361,482	1,974,457	3,202,398	3,429,809
Interest	102,387	33,250	116,691	55,860
Depreciation, Depletion & Amortization	123,312	168,904	242,207	334,292
Stock -Based Compensation	159,385	24,278	206,038	1,213,939
Derivative Instruments Loss	-	1,213,567	-	1,213,567
Impairment Loss	502,974	-	915,995	-
Bad Debt	-	-	5,460	-
Total Costs and Expenses	2,773,379	3,747,194	5,703,514	7,004,410
Net Loss	\$ (2,270,694)	\$ (2,190,571)	\$ (4,479,924)	\$ (4,391,945)
Basic Net Loss Per Share:				
Loss from Operations	\$ (0.03)	\$ (0.06)	\$ (0.08)	\$ (0.13)
Basic Loss Per Common Share:	\$ (0.03)	\$ (0.06)	\$ (0.08)	\$ (0.13)
Weighted Average Number of Shares Outstanding	65,698,722	36,902,102	58,741,555	35,039,904
Weighted Potentially Dilutive Shares Outstanding	67,617,719	40,851,924	60,660,552	36,550,615

No dilution is reported since Net Income is a loss per ASC 260.

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

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

	For the Six Months Ended June 30,	
	2011 (Restated)	2010 (Restated)
Cash Flows from Operating Activities		
Net Loss	\$ (4,479,924)	\$ (4,391,945)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities		
Depreciation, Depletion & Amortization	242,207	334,292
Impairment, Dry Hole & Other Disposals of Property	915,995	-
Stock -Based Compensation	206,038	1,213,939
Unrealized Loss on Derivative Instruments	-	1,213,567
(Gain) on Sale of Property	(27,732)	(1,673,492)
Director Stock Compensation	90,312	95,400
Changes in Operating Capital		
(Increase) in Accounts Receivable	(580,088)	(926,923)
(Increase) or Decrease in Deposits, Prepaids & Other Assets	44,702	(641,659)
(Increase) or Decrease in Accounts Receivable from Joint Venture Partners	(667,600)	786,471
(Decrease) in Accounts Payable, Deferred Revenue & Accrued Expenses	(1,815,410)	(1,715,139)
Net Cash Used in Operating Activities	(6,071,500)	(5,705,489)
Cash Provided (Used) by Investing Activities		
Proceeds from the Sale of Property	96,500	3,059,341
Capital Expenditures	(3,578,531)	(1,371,976)
Decrease in Accounts Receivable from Joint Venture Partners	1,125,000	562,500
Net Cash Used by Investing Activities	(2,357,031)	2,249,865
Cash Provided (Used) by Financing Activities		
Principal Payments on Long-Term Debt	(104,977)	(161,920)
(Purchase) of Treasury Stock	-	(25,000)
Net Proceeds from the Issuance of Stock Options	-	2,200
Net Proceeds from the Issuance of Common Stock	9,475,872	5,041,446
Net Cash Provided by Financing Activities	9,370,895	4,856,726
Net Increase in Cash and Cash Equivalents	942,364	1,401,102
Cash at the Beginning of Period	581,148	290,926
Cash at the End of Period	\$ 1,523,512	\$ 1,692,028

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

TRI-VALLEY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED
June 30, 2011, and 2010
(Unaudited)

NOTE 1 - DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

DESCRIPTION OF BUSINESS

Tri-Valley Corporation (“Tri-Valley,” “TVC,” or the “Company”) is a Delaware corporation which currently conducts its operations through two wholly-owned subsidiaries. TVC’s principal offices are located at 4927 Calloway Drive, Bakersfield, California 93312. Our telephone number is: (661) 864-0500.

The Company's two wholly-owned subsidiaries are:

Tri-Valley Oil & Gas Co. (“TVOG”) — conducts our hydrocarbon (crude oil and natural gas) business. TVOG derives most of its principal revenue from crude oil and natural gas production.

Select Resources Corporation, Inc. (“Select”) — holds and maintains our precious metals business. Select holds and develops two major mineral assets in the State of Alaska.

Effective for the first quarter of 2011, Tri-Valley's businesses were consolidated into two operating segments:

- Oil and Gas Operations — This segment represents our oil and gas business. This segment generated virtually all of the Company’s revenues from operations during the first three months of 2011. During the first quarter of 2011, management determined that our Rig Operations and Drilling and Development segments were no longer consistent with the Company’s long-term strategic objectives, namely, to increase the value of our petroleum and mineral assets for our shareholders, and consolidated all assets from those two operating segments into the Oil and Gas Operations segment.
- Minerals — This segment represents our precious metal mineral prospects. In the past, it has generated revenues from pilot-scale mining projects and subcontracting exploration and business development projects. This segment holds title to land or leases in the State of Alaska.

For additional information regarding Tri-Valley’s current developments and operating segments, please see Part I. Financial Information, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations elsewhere in this Quarterly Report.

BASIS OF PRESENTATION

The financial information included herein is unaudited; however, such information reflects all adjustments, consisting solely of normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of results for the interim periods. The results of operations for the six-month period ended June 30, 2011, are not necessarily indicative of the results to be expected for the full year.

The accompanying Condensed Consolidated Financial Statements do not include footnotes and certain financial presentations normally required under generally accepted accounting principles in the United States of America; and,

therefore, should be read in conjunction with our Annual Report on Form 10-K/A for the year ended December 31, 2010.

Consolidation Policy

The Condensed Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, TVOG and Select. Other partnerships in which the Company has an operating or non-operating interest, in which the Company is not the primary beneficiary, and has less than 51% ownership, are proportionately combined. These include the TVC OPUS 1 Drilling Program, L.P. ("OPUS"), Martins-Severin, Martins-Severin Deep, and Tri-Valley Exploration 1971-1 Partnership. All material intra- and intercompany accounts and transactions have been eliminated in combination and consolidation.

BASIS OF PRESENTATION (Continued)

Reclassification

In Part I., Financial Information, Item 1. Consolidated Financial Statements, Note 6 – Financial Information Relating to Industry Segments, we have eliminated Non-Segmented Items' allocation of Total Assets at June 30, 2011, and at December 31, 2010.

NOTE 2 - RESTATEMENT

As disclosed in a Current Report on Form 8-K the Company filed with the SEC on October 24, 2011, the Company determined on October 18, 2011 that the Company's previously filed financial statements for: (i) the fiscal quarter ended June 30, 2010 included in the Form 10-Q filed with the SEC on August 2, 2010, (ii) the fiscal quarter ended September 30, 2010 included in the Form 10-Q filed with the SEC on November 3, 2010, (iii) the fiscal year ended December 31, 2010 included in the Form 10-K filed with the SEC on March 22, 2011, (iv) the fiscal quarter ended March 31, 2011 included in the Form 10-Q filed with the SEC on May 9, 2011 and (v) the fiscal quarter ended June 30, 2011 included in the Form 10-Q filed with the SEC on August 19, 2011, needed to be restated to correct the valuation of, and accounting for, the common stock and warrants issued by the Company in a registered direct offering of securities in April 2010 and the accounting for incremental and direct costs incurred to issue common stock as further discussed below.

The Company performed a re-assessment of the valuation of common stock and warrants issued in connection with its April 2010 registered direct offering (see December 31, 2010 Form 10-K/A Part II, Item 8. Financial Statements and Supplementary Data, Note 11 – Common Stock and Warrants) and concluded that the values assigned to the common stock and warrants issued were overstated by \$6.5 million. The net proceeds from the registered direct offering of \$4.6 million (\$5.0 million gross proceeds less \$0.4 million of stock issuance costs) should have been allocated to the common stock and each series of warrants issued based upon their relative values at the time of issuance. This decrease in the recorded values of the common stock and warrants resulted in a decrease of an equal amount in charges made to the results of operations for the year ended December 31, 2010 (i.e. a decrease in Warrant Expense of \$6.1 million and a decrease in General & Administrative expense of \$0.4 million).

The Company performed a re-assessment of its accounting for the Series A, B and C warrants issued in connection with its April 2010 registered direct offering and concluded that the Series A and B Warrants were within the scope of Accounting Standards Codification 815-40, Derivatives and Hedging – Contracts in Entity's Own Equity ("ASC 815-40"), formerly Emerging Issues Task Force Issue No. 07-05, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock. ASC 815-40 states, among other things, that contingent and other adjustment features in equity-linked financial instruments are consistent with equity indexation if they are based on variables that would be inputs to a "plain vanilla" option or forward pricing model and they do not increase the settlement amount or the contract's exposure to those variables. The Company's Series A and B warrants issued in April 2010 were initially linked to the Company's own equity shares (i.e. exercise prices of \$1.50 per share and \$2.15 per share, respectively); however, the Series A and B warrant holders had protective pricing features, whereby the conversion price reset to the price per share received by the Company if the Company subsequently issued common stock at a price per share less than the \$1.30 per share paid by the investors in connection with the April 2010 registered direct offering. Resetting the conversion price based on a price per share received from other sales of common stock is not an input to an option pricing model and thus the fair value of the Series A and B warrants were not linked to the Company's common stock. Accordingly, the Series A and B warrants should have been accounted for as derivative financial liabilities, measured at a fair value of \$0.9 million at the date of issuance, with changes in fair value recognized as a gain or loss for each reporting period thereafter. All of the Series A and B warrants were

exchanged (or agreed to be exchanged) for common stock of the Company as at December 31, 2010 and the Company recognized \$1.8 million of losses on these derivative instruments for the year ended December 31, 2010 (see December 31, 2010 Form 10-K/A Part II, Item 8. Financial Statements and Supplementary Data, Note 11 – Common Stock and Warrants). The Series C warrants did not have similar protective pricing features that are not linked to the Company's common stock and were appropriately accounted for in equity as originally reported.

The Company performed a re-assessment of its accounting for stock issuance costs incurred in connection with its April 2011 private placement and various at-the-market offerings of common stock (see Part I, Item 1. Financial Statements, Note 5- Changes in Securities). The Company determined that \$0.2 million and \$0.6 million for the year ended December 31, 2010 and six months ended June 30, 2011, respectively, of stock issuance costs were incorrectly charged to the results of operations and should have been recorded as a reduction in the proceeds received from the sales of common stock (i.e. capital in excess of par value).

In the six-month period ended June 30, 2011, the Company issued warrants to a certain former executive in connection with his retirement agreement as further detailed in Part I, Item 1. Financial Statements, Note 6 – Stock-Based Compensation. The Company charged the fair market value on the date of issuance of these warrants to Warrant Expense in the results of operations for the six-month period ended June 30, 2011. The amount previously reported as Warrant Expense associated with these warrants has been reclassified to Stock-Based Compensation in the results of operations as part of the amendments in this Form 10-Q/A.

NOTE 2 – RESTATEMENT (Continued)

The Company performed an analysis of equipment in service on its Claflin property. It was determined that two steam generators with a fair value of \$1.7 million were acquired from the TVC OPUS 1 Drilling Program, L.P. in the second quarter of 2010 and the first quarter of 2011 which had not been recognized in the Company's consolidated financial statements. The correction of this acquisition of equipment is included as part of the amendments in this form 10-Q/A.

The following tables show the effects of the restatement on the Company's Condensed Consolidated Balance Sheet as of June 30, 2011 and Condensed Consolidated Statement of Operations and Condensed Consolidated Statement of Cash Flows for the six-month period ended June 30, 2011:

CONDENSED CONSOLIDATED BALANCE SHEET	As of June 30, 2011	
	As Previously Reported	As Restated
Property and Equipment - Net		
Proved Properties, Successful Efforts Method	3,847,873	6,097,873
Other Property and Equipment	2,717,908	2,155,408
Other Assets		
Long-Term Receivable from Joint Venture Partners	3,060,417	1,372,917
Stockholders' Equity		
Capital in Excess of Par Value	78,137,630	72,655,693
Accumulated Deficit	(71,085,320)	(65,603,386)

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS	For the Six Months Ended	
	June 30, 2011	
	As Previously Reported	As Restated
Costs and Expenses		
General & Administrative	3,835,055	3,202,398
Stock-Based Compensation (previously reported as Stock Option Expense)	193,038	206,038
Warrant Expense	13,000	-
Total Costs and Expenses	6,336,171	5,703,514
Net Loss	(5,112,581)	(4,479,924)
Basic Loss Per Common Share	(0.09)	(0.08)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	For the Six Months Ended	
	June 30, 2011	
	As Previously Reported	As Restated
Cash Flows from Operating Activities		
Net Loss	(5,112,581)	(4,479,924)
Stock-Based Compensation (previously reported as Stock Option Expense)	193,038	206,038
Warrant Expense	13,000	-
Net Cash Used in Operating Activities	(6,704,157)	(6,071,500)
Cash Provided (Used) by Investing Activities		

Capital Expenditures	(2,453,531)	(3,578,531)
Decrease in Accounts Receivable from Joint Venture Partners	-	1,125,000
Cash Flows from Financing Activities		
Net Proceeds from the Issuance of Common Stock	10,108,529	9,475,872
Net Cash Provided by Financing Activities	10,003,552	9,370,895

NOTE 3 – PER SHARE COMPUTATIONS

Per share computations are based upon the weighted-average number of common shares outstanding during each period reported. As there were net losses at June 30, 2011, and 2010, common stock equivalents are not included in the computations, as their inclusion would be anti-dilutive.

NOTE 4 – SUMMARY OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued Accounting Standards Update (“ASU”) 2010-05, Compensation – Stock Compensation (Topic 718): Escrowed Share Arrangements and the Presumption of Compensation ASU 2010-05 updates existing guidance to address the SEC staff’s views on overcoming the presumption that for certain shareholders escrowed share arrangements represent compensation. ASU 2010-05 became effective on January 15, 2010. The adoption of this guidance did not have a material impact on the Company’s financial position or results of operation.

In May 2011, the FASB issued ASU 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS” (“ASU 2011-04”). The amendments in ASU 2011-04 result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. Consequently, ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments in ASU 2011-04 to result in a change in the application of the requirements in Topic 820. ASU 2011-04 is effective prospectively for interim and annual reporting periods beginning after December 15, 2011. This ASU will become effective for the Company beginning in the quarter ended March 31, 2012, and we do not expect an impact on our Consolidated Financial Statements.

In February 2010, the FASB issued ASU 2010-09, Subsequent Events (Topic 855.). ASU 2010-09 amends ASC Topic 855 to include the definition of “SEC filer” and alleviate the obligation of SEC filers to disclose the date through which subsequent events have been evaluated. ASU 2010-09 became effective during February 2010. See Part II, Item 8. Financial Statements, Note 16 – Subsequent Events, in the Company’s Annual Report on Form 10-K/A for the year ended December 31, 2010, for the Company’s disclosures of subsequent events.

In December 2010, the FASB issued ASU 2010-28, Intangibles - Goodwill and Other (Topic 350). ASU 2010-28 modifies step one of the goodwill impairment test for reporting units with zero or negative carrying amounts, requiring that an entity perform step two of the goodwill impairment test if it is more likely than not that a goodwill impairment exists for those reporting units. ASU 2010-28 is effective for fiscal years beginning after December 15, 2010. The adoption of ASU 2010-28 did not have an impact on the goodwill impairment test performed by the Company.

NOTE 5 - CHANGES IN SECURITIES

Common Stock

On April 19, 2011, the Company entered into a Stock Purchase Agreement (the “Purchase Agreement”) with certain accredited investors (the “Purchasers”) to sell and issue to the Purchasers in reliance on Section 4(2) of the Securities Act of 1933, as amended (the “Securities Act”), and Rule 506 promulgated thereunder, an aggregate of 10,070,000 shares of common stock (the “Common Shares”) at a purchase price of \$0.50 per share, resulting in aggregate gross proceeds to the Company of \$5.0 million (the “Private Placement”). The Private Placement closed on April 21, 2011. The Company received net proceeds at the closing of approximately \$4.7 million after the deduction of placement agent commissions and offering expenses. Please see Item 1.01 Entry into a Material Definitive Agreement, and Item 3.02 Unregistered Sale of Equity Securities, in our Current Report on Form 8-K, filed with the SEC on April 21, 2011, for additional discussion.

During the second quarter of 2011, 127,200 shares of common stock were issued to our six independent directors for services rendered in the twelve months preceding the 2011 Annual Meeting of Stockholders, which was held on June 3, 2011.

140,000 shares of Company common stock pledged as security for the repayment of two notes payable to the Moss Family Trust were released to the Company's treasury stock account upon repayment of the notes during the second quarter of 2011.

During the quarter ended June 30, 2011, the Company returned an aggregate of \$411,250 to persons who had attempted to subscribe for shares of the Company's common stock in June and July 2008 and October 2009 private placements, but who failed, despite subsequent requests from the Company, to properly complete subscription documents in accordance with their terms. Having failed to complete the required subscription documents, the putative subscribers never purchased, and the Company never issued, the related shares. Therefore, the Company returned to such persons the original purchase price for the shares, plus statutory interest.

NOTE 6 - STOCK-BASED COMPENSATION

For the six months ended June 30, 2011 and three and six months ended June 30, 2010, the Company issued warrants to former executives in connection with retirement agreements. The Company charged the fair market value on the date of issuance of these warrants to Warrant Expense in the results of operation. The amounts previously reported as Warrant Expense associated with these warrants have been reclassified to Stock-Based Compensation in the results of operation as part of the amendments in this Form 10-Q/A.

NOTE 6 - STOCK-BASED COMPENSATION (Continued)

Stock-Based compensation expense charged to the results of operations for the three and six months ended June 30, 2011 was \$0.2 million (less than \$0.1 million and \$1.2 million for the three and six months ended June 30, 2010, respectively). For further information regarding stock-based compensation, please refer to Part II, Item 8. Financial Statements, Note 3 – Summary of Significant Accounting Policies, in our Annual Report on Form 10-K/A for the year ended December 31, 2010.

NOTE 7 - FINANCIAL INFORMATION RELATING TO INDUSTRY SEGMENTS

We report operating segments according to ASC 280, “Disclosure about Segments of an Enterprise and Related Information.” During the first quarter of 2011, management consolidated the Rig Operations and Drilling and Development segments into our Oil and Gas Operations segment to be consistent with the Company’s long-term strategic objectives. We identify two operating segments as described in Part I, Financial Information, Item 1. Consolidated Financial Statements, Note 1 – Description of Business and Basis of Presentation.

Revenues from the sale of oil and gas for the second quarters of 2011 and 2010 are reflected net of the cost of diluent used to reduce the viscosity of our crude oil and increase the API gravity of the resulting blend, as per industry practice.

The following table sets forth our revenues by operating segment for the three months ended June 30, 2011, and 2010 and for the six months ended June 30, 2011, and 2010 in millions of U.S. Dollars:

	For the Three Months Ended June 30, 2011	For the Three Months Ended June 30, 2010	Increase (Decrease)	Change %
Revenues				
Oil and Gas Operations	0.50	1.60	(1.10)	-69%
Minerals	-	-	-	0%
Non-Segmented Items	-	-	-	0%
Consolidated Revenues	\$ 0.50	\$ 1.60	(1.10)	-69%

	For the Six Months Ended June 30, 2011	For the Six Months Ended June 30, 2010	Increase (Decrease)	Change %
Revenues				
Oil and Gas Operations	1.20	2.60	(1.40)	-54%
Minerals	-	-	-	0%
Non-Segmented Items	-	-	-	0%
Consolidated Revenues	\$ 1.20	\$ 2.60	(1.40)	-54%

The following table sets forth our net income (loss) by segment for the three months ended June 30, 2011, and 2010 and for the six months ended June 30, 2011, and 2010, in millions of U.S. Dollars:

	For the Three Months	For the Three Months	Increase
--	-------------------------	-------------------------	----------

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

	Ended June 30, 2011	Ended June 30, 2010	(Decrease)	Change %
Results of Operations				
Oil and Gas Operations	(0.70)	1.00	(1.70)	-170%
Minerals	(0.10)	(0.10)	-	0%
Non-Segmented Items	(1.50)	(3.10)	1.60	52%
Net Loss	\$ (2.30)	\$ (2.20)	(0.10)	-5%

	For the Six Months Ended June 30, 2011	For the Six Months Ended June 30, 2010	Increase (Decrease)	Change %
Results of Operations				
Oil and Gas Operations	(1.00)	1.90	(2.90)	-153%
Minerals	(0.20)	(0.30)	0.10	33%
Non-Segmented Items	(3.30)	(6.00)	2.70	45%
Net Loss	\$ (4.50)	\$ (4.40)	(0.10)	-2%

NOTE 7 - FINANCIAL INFORMATION RELATING TO INDUSTRY SEGMENTS (Continued)

The following table summarizes our total assets, in millions of U.S. Dollars at June 30, 2011, and December 31, 2010:

	June 30, 2011	December 31, 2010
Total Assets		
Oil and Gas Operations	17.00	14.30
Minerals	1.00	0.40
Total Consolidated Assets	\$ 18.00	\$ 14.70

NOTE 8 - GOING CONCERN

We had a cash balance of \$0.6 million at December 31, 2010. That balance increased by \$0.9 million to \$1.5 million at June 30, 2011. Current liabilities as of December 31, 2010, were \$7.9 million and \$6.0 million as of June 30, 2011, a decrease of \$1.9 million. See Part II, Item 8. Financial Statements, Note 12 - Commitments and Contingencies, Contractual Obligations and Contingent Liabilities and Commitments, in our Annual Report on Form 10-K/A for the year ended December 31, 2010, for additional discussion.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. We are dependent on raising additional capital; however, certain factors, such as the economic climate and interest rates, which directly affect the supply of capital, are beyond the Company's control. As such, the Company has no certainty that capital will be available when needed; and these conditions raise substantial doubt about our ability to continue as a going concern. See Part II, Item 8. Financial Statements, Note 15 - Going Concern, in our Annual Report on Form 10-K/A for the year ended December 31, 2010, for additional discussion.

NOTE 9 - SUBSEQUENT EVENTS

Execution of Letter of Intent with US Gold Corporation

On May 31, 2011, Select entered into a binding letter of intent with US Gold Corporation ("US Gold"), which outlined the principal terms and conditions for a four-year Exploration Lease with Option to Purchase Property and Form Joint Venture (the "Definitive Agreement") with respect to Select's Richardson Project ("Richardson") in Alaska. On July 1, 2011, Select and US Gold executed the Definitive Agreement.

Under the terms of the Definitive Agreement, US Gold has acquired an exploration lease for Richardson, along with an exclusive option to purchase a 60% interest in the project and the right to enter into a joint venture with Select for its development. US Gold's option to purchase a 60% interest in Richardson will vest upon completion of \$5 million of exploration expenditures and 30,000 feet of core drilling during the term of the Definitive Agreement. The parties have agreed that US Gold may terminate the Definitive Agreement after completing \$2.2 million in exploration expenditures and performing 15,000 feet of core drilling at Richardson, which is required during the first two years of the Definitive Agreement. Should US Gold elect to terminate the Definitive Agreement, Select will retain its 100% interest in Richardson. Select received its first option payment of \$200,000 upon execution of the Definitive Agreement and will receive another \$100,000 upon reaching the first anniversary of the agreement. Select is also entitled to receive additional option payments of \$100,000 for each of the remaining two years of the exploration lease period if US Gold exercises its option. Please see Item 1.01 Entry into a Material Definitive Agreement, in our Current Report on Form 8-K, filed with the SEC on July 8, 2011, for additional discussion.

NOTE 9 - SUBSEQUENT EVENTS (Continued)

Executive Retirement Agreement and General Release with Mr. James C. Kromer

On July 15, 2011, Tri-Valley and Mr. James C. Kromer entered into an Executive Retirement Agreement and General Release (“Executive Agreement and Release”), pursuant to which Mr. Kromer resigned from all positions with the Company, including as Vice President of Operations, and from all Company subsidiary positions. Mr. Kromer’s resignation was effective as of July 15, 2011, subject to a seven-day “cooling off” period, during which period Mr. Kromer had the right to revoke his resignation and be restored to all positions with the Company. Mr. Kromer never revoked his resignation.

Pursuant to the Executive Agreement and Release, on July 18, 2011, the Company paid Mr. Kromer \$46,500, less applicable withholdings. In addition, following the expiration of the seven-day cooling off period, the Company paid Mr. Kromer an additional \$46,500, payable pro rata in semi-monthly installments, less applicable withholdings, beginning on July 31, 2011, and each pay period thereafter until October 15, 2011.

In exchange for Mr. Kromer’s surrender of all outstanding Company issued stock options, the Executive Agreement and Release provided for a grant to Mr. Kromer of a three-year Warrant to purchase 75,000 shares of Company common stock at a purchase price of \$0.58 per share, the closing price of the common stock on July 15, 2011, as reported on the NYSE Amex.

Mr. Kromer’s day-to-day responsibilities for oil and gas operations were assumed by Mr. Maston N. Cunningham, Tri-Valley’s President and CEO until such time as a replacement for Mr. Kromer is named. Please see Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers, in our Current Report on Form 8-K, filed with the SEC on July 19, 2011, for additional discussion. The required disclosures of the Executive Agreement and Release have been incorporated into the Company’s Consolidated Financial Statements.

CEO Base Salary Increase

On August 16, 2011, the Board of Directors of the Company increased the annual base salary of Maston N. Cunningham, the Company’s President and Chief Executive Officer. Effective as of August 16, 2011, Mr. Cunningham’s annual base salary was increased to \$300,000. The base salary increase for Mr. Cunningham was made based upon the recommendation of the Compensation Committee of the Board of Directors. In April 2011, the Compensation Committee engaged Pearl Meyer & Partners as an independent and objective third-party compensation consultant to conduct an executive officer and non-employee director compensation review and evaluation and to provide the Compensation Committee with assistance and recommendations in developing a new comprehensive compensation program. The base salary increase for Mr. Cunningham is expected to be the first step in revamping the strategy, design, and effectiveness of the Company’s executive compensation program to bring total compensation to approximately the 35th percentile for frame-of-reference competitive employers.

CFO Resignation

On August 15, 2011, John E. Durbin, our Chief Financial Officer, tendered his resignation, effective as of August 29, 2011. Mr. Durbin is resigning to pursue other opportunities and not as a result of any disagreement with the Company. Until a successor Chief Financial Officer has been chosen, Mr. Maston N. Cunningham, President and Chief Executive Officer of the Company, will serve as the Company’s interim Chief Financial Officer. The Company is interviewing experienced financial executives to perform the CFO’s functions under Mr. Cunningham’s supervision until the successor Chief Financial Officer has been chosen.

NOTE 9 - SUBSEQUENT EVENTS (Continued)

OPUS Matters

As disclosed in greater detail in Part II. Other Information, Item 5. Other Information—OPUS Matters, contained elsewhere in this Quarterly Report on Form 10-Q/A, the Company has entered into a term sheet with the OPUS Special Committee in connection with the restructuring of OPUS and the resolution of alleged claims first brought to the Company's attention by OPUS partner, G. Robert Miller, in August 2010. Pursuant to the term sheet, \$32.3 million (plus 5.25% per annum simple interest attributable to the OPUS Preferred Return Amount, as described below) will be allocated to current OPUS partners on a prospective basis from the following two sources:

The ORRIs. The Company will contribute 100% of its overriding royalty interests ("ORRIs") on each of the Pleasant Valley ("PV") properties to a new joint venture company, of which the Company will be a 25% equity partner and current OPUS partners will, in the aggregate, own a 75% equity interest. The parties have assigned a discounted, net present value of \$12.0 million to the ORRIs to be contributed by the Company. This amount is based on the expected future revenues to be generated under the ORRIs by the new joint venture company.

Preferential Right of Return. The remaining \$20.3 million (plus a 5.25% per annum simple interest accrual on any unreturned portion thereof until satisfied) (collectively, the "OPUS Preferred Return Amount") will be funded from the Company's portion of the net cash flow generated by the new joint venture company from the PV Oil Sands Project. All net cash flow generated by the joint venture company that would otherwise be allocable to the Company will instead be allocated solely to the current OPUS partners until such time as the OPUS Preferred Return Amount is satisfied in full. Assuming satisfaction in full of the OPUS Preferred Return Amount, all net cash flow generated by the joint venture company will be allocated 25% to the Company and 75% to current OPUS partners.

Therefore, 25% of any ORRI income that would have otherwise been allocable to the Company, and 25% of any other cash flow allocations that would have otherwise been allocable to the Company will be allocated instead to current OPUS partners until the OPUS Preferred Return Amount is satisfied. Subject to a number of factors and uncertainties, including those which have been identified elsewhere in this Quarterly Report and in the Company's other filings with the SEC, we expect that the OPUS Preferred Return Amount will be satisfied from the new joint venture company's net cash flow in six to eight years following the closing.

The Company has agreed to pledge its 25% equity interest in the new joint venture company as security for satisfaction of the OPUS Preferred Return Amount. The existing tolling agreement executed in September 2010 with G. Robert Miller will be replaced by a new tolling agreement. The new tolling agreement, which will be put in place by Mr. Miller for the benefit of current OPUS partners, will be designed to give the Company the ability to satisfy the OPUS Preferred Return Amount on a prospective basis from the net cash flow to be generated by the new joint venture company without the threat of litigation.

Consummation of the transactions contemplated by the agreed-upon term sheet is subject to a number of conditions being satisfied, including, but not limited to, the negotiation and execution of definitive agreements, the ratification of the settlement terms and new operating structure by the Board of Directors of Tri-Valley and at least a majority in interest of the OPUS partners (not including the interests held by affiliates of Tri-Valley), and no court order or regulatory action enjoining the consummation of the transactions contemplated by the term sheet.

For additional information, please see Part II. Other Information, Items 1A (Risk Factors) and 5 (Other Information) contained elsewhere in this Quarterly Report on Form 10-Q/A.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Notice Regarding Forward-Looking Statements

All statements contained in this Quarterly Report that refer to future events or other non-historical matters are forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. We have attempted to identify forward-looking statements by terminology including “anticipates,” “believes,” “can,” “continue,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” or “predicts,” or the negative terms or other comparable terminology. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. These statements are only predictions based on management’s expectations as of the date of this Quarterly Report, and involve known and unknown risks, uncertainties and other factors, including, without limitation, those disclosed under this “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and under “Part II, Item 1A. Risk Factors” contained in this Quarterly Report, as well as those other risks and factors that are discussed in our filings with the SEC from time to time, including, but not limited to, under “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contained in our Annual Report on Form 10-K/A for the year ended December 31, 2010 and under “Part II, Item 1A. Risk Factors” contained in our Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2011. Except as required by law, we undertake no obligation to update or revise publicly any of the forward-looking statements after the date of this Quarterly Report to conform such statements to actual results or to reflect events or circumstances occurring after the date of this Quarterly Report.

Overview

We operate as the parent company for our principal subsidiaries, Tri-Valley Oil & Gas Co. (“TVOG”), which explores for and produces oil and natural gas in California, and Select Resources Corporation, Inc. (“Select”), which holds and maintains two major mineral assets in the State of Alaska. Our reportable operating segments are Oil and Gas Operations and Minerals.

Oil and Gas Operations

Our oil and gas operations primarily consist of exploring and drilling for, and ultimately producing and selling, crude oil and natural gas. As a result, TVOG derives most of its principal revenue from the production and sale of crude oil and natural gas. The profitability of our operations in any particular accounting period will be directly related to the realized prices of crude oil and natural gas sold, the type and volume of crude oil and natural gas produced, and the results of development and exploitation activities. Realized prices for natural gas will fluctuate from one period to another due to regional market conditions and other factors, while oil prices will be predominantly influenced by global supply and demand. Oil and natural gas prices are volatile and change for reasons that are beyond our control. Decreases in the price we receive for our oil and natural gas production will have an adverse effect on our business, financial condition, results of operations, and liquidity. The aggregate amount of crude oil and gas produced may fluctuate based on the success of development and exploitation of oil and gas reserves pursuant to current reservoir management. We benefit from lower natural gas prices as we are a consumer of natural gas in our California operations. The cost of natural gas used in our steaming operations, production rates, labor, equipment costs, maintenance expenses, and production taxes are expected to be the principal influences on operating costs. Accordingly, our results of operations may fluctuate from period to period based on the foregoing principal factors, among others.

Our average net production of heavy oil from cyclic steaming operations at our Pleasant Valley and Claflin projects was 71 barrels of oil per day (BOPD) in both the second quarters of 2011 and 2010, and 82 BOPD in the first quarter of 2011. Eight new vertical wells were drilled at our Claflin oil project in the Edison Field during April of this year. Two of the new wells received their initial steam injection cycle in June, and initial steam injection was performed on a third well during July 2011. Oil production commenced from the first of the new wells in late June; and during July, three of the new wells were producing oil at initial rates of between 30 to 40 BOPD per well in line with our expectations. Production operations at Claflin have been curtailed due to required modifications to our steam generation facilities to comply with best operating practices and air quality emission standards of the San Joaquin Valley Air Pollution Control District. We expect to resume steam injection on the remainder of the new wells during the second half of September of this year, once the generator modifications are completed. Our 3-D seismic acquisition at Claflin has also been delayed due to difficulties in securing surface and mineral owner permits. All permits have now been received and survey work has commenced. Seismic data acquisition should be completed in the second half of August 2011, and an initial interpretation of results should be available in late September.

Based on these delays, we are revising our Claflin development plan for the remainder of 2011 to drill two new horizontal wells in the fourth quarter, so that we can evaluate the production results before drilling additional horizontal wells to fully develop the Claflin lease in 2012. Accordingly, we have lowered our estimated year-end exit rate at Claflin from 800 BOPD to 250 BOPD. We expect our total net heavy oil production from Pleasant Valley and Claflin to increase to 300 BOPD by fiscal year end.

Overview (Continued)

On August 18, 2011, we reached preliminary, amicable terms with the OPUS Special Committee for the resolution of issues with OPUS. For additional information, please refer to Part II. Other Information, Item 5. Other Information—OPUS Matters, contained elsewhere in this Quarterly Report on Form 10-Q/A, which is incorporated by reference herein.

Minerals

Our minerals business primarily consists of holding two major minerals assets in the State of Alaska, which we refer to as the Richardson and Shorty Creek properties, respectively. Select holds title to these properties and related mining claims, both through direct ownership and through leasing arrangements. In the past, we have generated revenues from pilot-scale mining projects and subcontracting exploration and business development projects. However, these precious metal properties will require substantial investment to discover and delineate sufficient mineral resources to justify any future commercial development. To date, we have realized no significant revenue from our mineral properties in Alaska and cannot predict when, if ever, we may see significant returns from our precious metal investments. Precious metals mining is highly labor- and capital-intensive; therefore, the cost of labor and equipment, maintenance expenses, royalties, and production taxes are expected to be the principal influences on our operating costs in this segment.

Select and US Gold Corporation (“US Gold”) (NYSE and TSX: UYG) entered into a four-year Exploration Lease with Option to Purchase Property and Form Joint Venture with respect to our Richardson property. Under the terms of the agreement, US Gold acquired an exploration lease for Richardson, along with an exclusive option to purchase a 60% interest in the project and the right to enter into a joint venture with Select for its development. US Gold’s option to purchase a 60% interest in Richardson will vest upon completion of \$5.0 million of exploration expenditures and 30,000 feet of core drilling during the term of the Definitive Agreement. The parties have agreed that US Gold may terminate the Definitive Agreement after completing \$2.2 million in exploration expenditures and performing 15,000 feet of core drilling at Richardson, which is required during the first two years of the Definitive Agreement. Should US Gold elect to terminate the Definitive Agreement, Select will retain its 100% interest in Richardson. Select received its first option payment of \$200,000 upon execution of the Definitive Agreement on July 1, 2011, and will receive another \$100,000 upon reaching the first anniversary of the agreement. Select is also entitled to receive additional option payments of \$100,000 for each of the remaining two years of the exploration lease period if US Gold exercises its option.

Following execution of the Definitive Agreement, US Gold commenced operations at Richardson on July 5, 2011, to collect auger soil samples for laboratory analysis, and other activities have been completed to permit core drilling operations later this year. A drilling permit has been obtained, and US Gold is currently sourcing drilling equipment to perform approximately 5,000 feet of core drilling at Richardson during the fall of this year as weather permits.