TRI VALLEY CORP
Form 10-K405
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2001 Commission File No. 0-6119

TRI-VALLEY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	84-0617433
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5555 Business Park South, Suite 200, Bakersfield, California 93309

(Address of Principal Executive Offices)

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

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

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, $0.001 par value
(Title of Class)

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

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

The issuer's revenues for the most recent fiscal year were $2,130,187.

As of January

25, 2002, 19,689,748 common shares were issued and outstanding, and the aggregate market value of the common shares of Tri-Valley Corporation held by non-affiliates on that date was approximately $25,852,886.

DOCUMENTS INCORPORATED BY REFERENCE: None

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

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PART I

ITEM 1. Business

Tri-Valley Corporation, a Delaware corporation formed in 1971, is in the business of exploring, acquiring and developing prospective and producing petroleum and precious metals properties and interests therein. Tri-Valley has two wholly owned subsidiaries. Tri-Valley Oil & Gas Company ("TVOG") operates the oil & gas activities. TVOG derives the majority of its revenue from gas production. Tri-Valley Power Corporation is the other wholly owned subsidiary. However, this subsidiary is inactive at the present time. The precious metals activity is operated directly by Tri-Valley Corporation.

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

In 1987, we acquired precious metals claims on Alaska state lands. We have conducted exploration operations on these properties and have reduced our original claims to a block of approximately 27,440 acres (42.9 square miles).

We have conducted trenching, core drilling, bulk sampling and assaying activities to date and have reason to believe that mineralization exists to justify additional exploration activities. However, to date, we have not identified probable mineral reserves on these properties. There is no assurance that a commercially viable mineral deposit exists on any of these above-mentioned mineral properties. Further exploration is required before a final evaluation as to the economic and legal feasibility can be determined.

We sell substantially all of our oil and gas production to Phillips Petroleum Company. Other gatherers of oil and gas production operate within our area of operations in California, and we are confident that if Phillips ceased purchasing our production we could find another purchaser on similar terms with no adverse consequences to our income or operations.

Competition

The oil and gas industry is highly competitive in all its phases. Competition is particularly intense with respect to the acquisition of desirable producing properties, the acquisition of oil and gas prospects suitable for enhanced production efforts, and the hiring of experienced personnel. Our competitors in oil and gas acquisition, development, and production include the major oil companies in addition to numerous independent oil and gas companies, individual proprietors and drilling programs. Many of these competitors possess and employ financial and personnel resources substantially greater than those which are available to us and may be able to pay more for desirable producing properties and prospects and to define, evaluate, bid for, and purchase a greater number of producing properties and prospects than we can. Our financial or personnel resources to generate reserves in the future will be dependent on our ability to select and acquire suitable producing properties and prospects in competition with these companies.

Governmental Regulation

Domestic exploration for the production and sale of oil and gas is extensively regulated at both the federal and state levels. Legislation affecting the oil and gas industry is under constant review for amendment or expansion, frequently increasing the regulatory burden. Also, numerous departments and agencies, both federal and state, are authorized by statute to issue, and have issued, rules and regulations affecting the oil and gas industry which often are difficult and costly to comply with and which carry substantial penalties for noncompliance. State statutes and regulations require permits for drilling operations, drilling bonds, and reports concerning operations. Most states in which we will operate also have statutes and regulations governing conservation matters, including the unitization or pooling of properties and the establishment of maximum rates of production from wells. Many state statutes and regulations may limit the rate at which oil and gas could otherwise be produced from acquired properties. Some states have also enacted statutes prescribing ceiling prices for natural gas sold within their states. Our operations are also subject to numerous laws and regulations governing plugging and abandonment, the discharge of materials into the environment or otherwise relating to environmental protection. The heavy regulatory burden on the oil and gas industry increases its costs of doing business and consequently affects its profitability. We cannot be sure that a change in such laws, rules, regulations, or interpretations, will not harm our financial condition or operating results.

Mechanical and Environmental Issues

Mining Activities

Mining activities in the United States are subject to federal and state laws and regulations covering mining safety and environmental quality. However, because we do not have active mining operations at present, these regulations have little impact on our current activities. In 2001, 2000 and 1999, the regulatory requirements had no significant effect on our precious metals activity as we continued our exploration efforts.

Should we seek to develop our precious metals claims, development efforts would require compliance with mining laws and regulations. State and federal laws impose minimum safety standards to protect workers in the construction and development of mines and conduct of mining operations. Mining activities are subject to environmental regulation of the output of mines, particularly in the storage and disposal of waste from mining operations. Environmental regulations restrict the storage, use and disposal of both the materials used in mining operations and the waste contained in mineral ore, all of which contain toxic materials that would damage the surrounding land and ground water if not carefully handled.

In addition, federal and state regulations call for reclamation of land which has been altered by mining activities. These regulations may require significant expenditures to clean up a mining site during and after mining.

Before we could begin actual mining operations on our claims, we would have to develop a feasibility study which would, among other things, address the potential costs of labor, safety and environmental regulation on any proposed mining activity. We do not expect to begin a feasibility study in 2002 and do not expect to incur any significant regulatory costs or liabilities in connection with government regulation of our claims.

Energy Operations

Our energy operations are subject to risks of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards, such as oil spills, natural gas leaks, ruptures or discharges of toxic gases, the occurrence of any of which could result in substantial losses due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. In accordance with customary industry practice, we maintain insurance against these kinds of risks, but we cannot be sure that our level of insurance will cover all losses in the event of a drilling or production catastrophe. Insurance is not available for all operational risks, such as risks that we will drill a dry hole, fail in an attempt to complete a well or have problems maintaining production from existing wells.

Oil and gas activities can result in liability under federal, state, and local environmental regulations for activities involving, among other things, water pollution and hazardous waste transport, storage, and disposal. Such liability can attach not only to the operator of record of the well, but also to other parties that may be deemed to be current or prior operators or owners of the wells or the equipment involved. Numerous governmental agencies issue rules and regulations to implement and enforce such laws, which are often difficult and costly to comply with and which carry substantial administrative, civil and criminal penalties and in some cases injunctive relief for failure to comply. Some laws, rules and regulations relating to the protection of the environment may, in certain circumstances, impose "strict liability" for environmental contamination. These laws render a person or company liable for environmental and natural resource damages, cleanup costs and, in the case of oil spills in certain states, consequential damages without regard to negligence or fault. Other laws, rules and regulations may require the rate of oil and gas production to be below the economically optimal rate or may even prohibit exploration or production activities in environmentally sensitive areas. In addition, state laws often require some form of remedial action, such as closure of inactive pits and plugging of abandoned wells, to prevent pollution from former or suspended operations.

The federal Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, also known as the "Superfund" law, imposes liability, without regard to fault, on certain classes of persons with respect to the release of a "hazardous substance" into the environment. These persons include the current or prior owner or operator of the disposal site or sites where the release occurred and companies that transported, disposed or arranged for the transport or disposal of the hazardous substances found at the site. Persons who are or were responsible for releases of hazardous substances under CERCLA may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources, and it is not uncommon for the federal or state government to pursue such claims. It is also not uncommon for neighboring landowners and other third parties to file claims for personal injury or property or natural resource damages allegedly caused by the hazardous substances released into the environment. Under CERCLA, certain oil and gas materials and products are, by definition, excluded from the term "hazardous substances." At least two federal courts have held that certain wastes associated with the production of crude oil may be classified as hazardous substances under CERCLA. Similarly, under the federal Resource, Conservation and Recovery Act, or RCRA, which governs the generation, treatment, storage and disposal of "solid wastes" and "hazardous wastes," certain oil and gas materials and wastes are exempt from the definition of "hazardous wastes." This exemption continues to be subject to judicial interpretation and increasingly stringent state interpretation. During the normal course of operations on properties in which we have an interest, exempt and non-exempt wastes, including hazardous wastes, that are subject to RCRA and comparable state statutes and implementing regulations are generated or have been generated in the past. The federal Environmental Protection Agency and various state agencies continue to promulgate regulations that limit the disposal and permitting options for certain hazardous and non-hazardous wastes.

Compliance with environmental requirements, including financial assurance requirements and the costs associated with the cleanup of any spill, could have a material adverse effect on our capital expenditures or earnings. These laws and regulations have not had a material affect on our capital expenditures or earnings to date. Nevertheless, changes in environmental laws have the potential to adversely affect operations. At this time, we have no plans to make any material capital expenditures for environmental control facilities.

Employees

We had a total of five full-time employees, one part-time bookkeeper, and two consultants on December 31, 2001.

ITEM 2. Properties

Our headquarters and administrative offices are located at 5555 Business Park South, Suite 200, Bakersfield, California 93309. We lease approximately 4,500 square feet of office space at that location. Our principal properties consist of proven and unproven oil and gas properties, mining claims on unproven precious metals properties, maps and geologic records related to prospective oil and gas and unproven precious metal properties, office and other equipment. TVOG has a worldwide geologic library with data on every continent except Antarctica including over 700 leads and prospects in California, our present area of emphasis.

Oil and Gas Operations

The oil and gas properties in which we hold interests are primarily located in the area of central California known as the Sacramento Valley. We also lease exploration acreage in the San Joaquin and Santa Maria Valleys. We contract for the drilling of all its wells and do not own any drilling equipment, bulk storage facilities, or refineries. We do own a small segment of pipeline at Tracy, California.

We have retained the services of Cecil Engineering, an independent engineer qualified to estimate our net share of proved developed oil and gas reserves on all of our oil and gas properties at December 31, 2001 for SEC filing. We do not include any undeveloped reserves in these reserve studies. Only proved developed reserves are listed in our reserve report. Price is a material factor in our stated reserves, because higher prices permit relatively higher-cost reserves to be produced economically. Higher prices generally permit longer recovery, hence larger reserves at higher values. Conversely, lower prices generally limit recovery to lower-cost reserves, hence smaller reserves. The process of estimating oil and gas reserve quantities is inherently imprecise. Ascribing monetary values to those reserves, therefore, yields imprecise estimated data at best.

Our estimated future net recoverable oil and gas reserves from proved developed properties as of December 31, 2001, December 31, 2000 and December 31, 1999 were as follows:

		BBL		MCF
December 31, 2001	Condensate	162	Natural Gas	1,616,418
December 31, 2000	Condensate	299	Natural Gas	1,842,672
December 31, 1999	Condensate	185	Natural Gas	1,540,003

Using year-end oil and gas prices and current levels of lease operating expenses, the estimated present value of the future net revenue to be derived from our proved developed oil and gas reserves, discounted at 10%, was $1,758,183 at December 31, 2001, $12,920,069 at December 31, 2000, and $1,308,178 at December 31, 1999. The unaudited supplemental information attached to the consolidated financial statements provides more information on oil and gas reserves and estimated values.

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

	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
Natural Gas (MCF)	230,392	249,011	210,333
Crude Oil (BBL)	14	50	119

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

	Year Ended December 31, 2001		Year Ended December 31, 2000		Year Ended December 31, 1999	
	Gas (Mcf)	Oil (Bbl*)	Gas (Mcf)	Oil (Bbl*)	Gas (Mcf)	Oil (Bbl*)
Sales Price	$6.93	$22.32	$3.99	$19.98	$2.39	$11.57
Production Costs	$0.40	0	.29	0	.67	0
Net Profit	$6.53	$22.32	$3.70	$19.98	$1.72	$11.57

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

As of December 31, 2001, we had the following gross and net position in wells and developed acreage:

Wells (1)		Acres (2)	
Gross	Net	Gross	Net
11	4.537	2,192	645

(1) "Gross" wells represent the total number of producing wells in which we have a working interest. "Net" wells represent the number of gross producing wells multiplied by the percentages of the working interests which we own. "Net wells" recognizes only those wells in which we hold an earned working interest. Working interests earned at payout have not been included.

(2) "Gross" acres represent the total acres in which we have a working interest; "net" acres represent the aggregate of the working interests which we own in the gross acres.

We drilled one exploratory well in 2001, which was a dry hole. We drilled two exploratory wells in 2000. One, the Sunrise-Mayel No. 1 was non-commercial. We intend to hydraulically fracture the second well, Ekho No. 1, to determine if this well is capable of commercial production. *See Management's Discussion and Analysis of Financial Condition - Petroleum Activities, page 8.*

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

Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999

Exploratory		1	
Producing	-0-	-0-	-0-
Dry	1	1	-0-
Total	1	-0-	-0-
Development			
Producing	-0-	-0-	-0-
Dry	-0-	-0-	-0-
Total	-0-	-0-	-0-

The following table sets forth information regarding undeveloped oil and gas acreage in which we had an interest on December 31, 2001.

State	Gross Acres	Net Acres
California	49,329	43,541
Nevada	16,616	16,616

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

Expires in 2002	5,852 acres
Expires in 2003	7,843 acres
Expires in 2004	2,374 acres

Precious Metals

The precious metals properties are located in interior Alaska. As of December 31, 2001, we had no proven precious metal reserves, but we are exploring these properties. They are comprised of 626 40-acre claims and 15 160-acre claims, of which 104 claims are leased from others, located solely on State open lands requiring annual assessment work, and an annual per claim fee. All fees are current.

The mining claim block covers about 42.9 square miles or 27,740 acres of land, all of which is owned by the State of Alaska. The claims lie within T-5-6-7 S, R 5-6-7-8 E, Fairbanks Meridian (Plate 1), immediately north of the Richardson Highway, an all-weather paved highway that connects Fairbanks, Alaska, with points south and east. Fairbanks is approximately 65 miles northwest of Richardson, and Delta Junction, also on the highway, is about 30 miles to the southeast. The Trans Alaska Pipeline corridor is near the northeastern edge of the claim block and the service road along the pipeline provides access to the claims from the north. Numerous good to fair dirt roads traverse the claims.

The following table sets forth the information regarding the acreage position we have under lease in Alaska as of

December 31, 2001:

State	Gross Acres	Net Acres
Alaska	27,740	26,946

Mineral properties claimed on open state land require minimum annual assessment work of $100 worth per State of Alaska claim. In May 2001, we staked 16 160-acre claims. In September 2001, we decided to drop a total of 280 claims, including 9 160-acre claims. In October 2001, we staked 8 new 160-acre claims. Expenditures on the Richardson, Alaska acreage have already carried forward annual assessment requirements more than four years on all its claims. We have no Federal claims.

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

We intend to continue our exploration efforts for precious metals on our claim block in Richardson, Alaska. With the help of TsNIGRI, we have explored and evaluated this property during the summer months, due to the constraints of the weather in the winter months. This work will consist of field activity which includes drilling bore holes, mapping and other geological work.

ITEM 3. Legal Proceedings

We were not party to any material legal proceedings during 2001.

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

We held our annual meeting on October 22, 2001. At the meeting, the shareholders re-elected all of the six directors who were recommended by the board. They also approved the appointment of Brown Armstrong as our independent accountants.

The shareholder votes were as follows:

Measure #1 - Election of Directors

	FOR	AGAINST	ABSTAIN
Earl H. Beistline	18,871,219	81,696	
F. Lynn Blystone	18,880,919	71,996	

Milton J. Carlson	18,881,219	71,696
C. Chase Hoffman	18,881,219	71,696
Dennis P. Lockhart	18,880,919	71,996
Loren J. Miller	18,880,919	71,996

Measure #2 - Appoint Brown Armstrong as the Company's independent accountants.

FOR	AGAINST	ABSTAIN
18,837,629	85,231	30,055

PART II

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

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

	Bid Prices		Asked Prices	
	High	Low	High	Low
2001				
First Quarter	$2.063	$1.25	$2.50	$1.22
Second Quarter	$2.980	$0.85	$3.20	$0.69
Third Quarter	$2.500	$1.40	$2.65	$1.40
Fourth Quarter	$1.900	$1.20	$2.05	$1.20
2000				
First Quarter	$3.438	$1.44	$3.63	$1.43
Second Quarter	$4.125	$2.03	$4.53	$1.88
Third Quarter	$3.188	$1.75	$3.38	$1.72
Fourth Quarter	$1.938	$1.13	$2.06	$1.06

As of December 31, 2001, we estimate that our common stock was held by approximately 2,000 shareholders of record in 40 states and at least 4 foreign countries.

We historically have paid no dividends, and at this time do not plan to pay any dividends in the immediate future. Rather, we strive to add share value through discovery success. As of January 25, 2001, we had 17 market makers for our stock. In 2001, trading volume exceeded 8 million shares.

Recent Sales of Unregistered Securities

During 2001 we issued the following shares of common stock without registration under the Securities Act of 1933. All of these securities were issued pursuant to privately negotiated transactions in reliance on the exemption contained in Section 4(2) of the Securities Act.

- One director and one former employee exercised options to purchase 16,000 common shares at $0.50 each.

- One individual, Edgar L. Moss, exercised options (purchased from a former employee in 2000) to purchase 99,000 common shares at $0.50 per share.

- We issued 10,000 shares to Trans Seismic International for services. The closing market price of our common stock on the date we awarded these shares (February 27, 2001) was $1.44 per share.

- We issued 10,000 shares to TVOG president, Joseph R. Kandle, for services. The closing market price of our common stock on the date we awarded these shares (April 9, 2001) was $0.87 per share.

ITEM 6. Selected Historical Financial Data

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Income Statement Data:					
Revenues	$ 2,130,187	$ 2,197,369	$ 2,686,129	$ 977,982	$ 915,519
Operating Income (Loss)	$ (117,975)	$ (1,360,263)	$ (12,417)	$ (1,004,790)	$ (3,306,561)
Basic Earnings Per Share	$ -	$ (0.07)	$ -	$ (0.05)	$ (0.19)
Revenues	$ 2,130,187	$ 2,197,369	$ 2,686,129	$ 977,982	$ 915,519

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Balance Sheet Data:					
Property and Equipment, net	$ 2,010,457	$ 1,357,959	$ 1,059,755	$ 1,038,237	$ 821,614
Total Assets	$ 3,381,757	$ 4,053,257	$ 9,802,463	$ 2,216,958	$ 4,921,127
Long Term Obligations	$ 8,371	$ 12,038	$ 21,055	$ 8,527	$ 116,950
Stockholder's Equity	$ 353,776	$ 391,651	$ 391,651	$ 1,230,849	$ 2,091,687

ITEM 7. Management's Discussion And Analysis Of Financial Condition

Notice Regarding Forward-Looking Statements

This report contains forward-looking statements. The words, "anticipate," "believe," "expect," "plan," "intend," "estimate," "project," "could," "may," "foresee," and similar expressions are intended to identify forward-looking statements. These statements include information regarding expected development of the Company's business, lending activities, relationship with customers, and development in the oil and gas industry. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove incorrect, actual results may vary materially and adversely from those anticipated, believed, estimated or otherwise indicated.

Overview

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

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

We seek to fund and drill enough exploratory wells for commercial discoveries to make up for the cost of the inevitable dry holes that we can expect, in the exploration business. We believe our existing inventory and projects bear a high enough ratio of potentially successful to unsuccessful projects to deliver value to our drilling partners and our shareholders from successful wells, in excess of the total costs of all successful and unsuccessful projects. Our future results will depend on our success in finding new reserves and commercial production, and there can be no assurance what revenue we can ultimately expect from any new discoveries.

Tri-Valley Corporation does not engage in hedging activities and does not use commodity futures or forward contracts in its cash management functions.

Natural Gas Activities

The Company generally sells a percentage of production on a fixed contract price and the remainder at the monthly spot price. In times when we expect the price of gas to weaken, we try to increase the amount we sell under fixed prices. When we expect the price of gas to rise, we seek to sell more gas in the spot market. In 2000, we sold 49% of our production under fixed price contracts and 51% on the spot market. In 2001, we sold our gas 100% on the spot market. Because we expect gas prices to rise, we intend to sell 100% of our production on the spot market in 2002. Because we plan to sell only on the spot market in 2002, a drop in the price of gas could possibly have a more adverse impact on us than if we entered into some fixed price contracts for sale of future production.

Our proved hydrocarbon reserves were valued using a standardized measure of discounted future net cash flows of $1,005,010 at December 31, 2001, a decrease of $7,478,716 from December 31, 2000 after taking into account a 10% discount rate and also taking into consideration the effect of income tax. This was due primarily to the decrease in gas prices. Estimates such as these are subject to numerous uncertainties inherent in the estimation of quantities of proved reserves. 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. This value does not appear on the balance sheet because accounting rules require discovered reserves to be carried on the balance sheet at the cost of obtaining them rather than the actual future net revenue from producing them.

Tri-Valley usually sells most of the working interest in its test wells on prospects to third parties. The sales price of the interest is intended to pay for all drilling and testing costs on the property. Tri-Valley retains a minority "carried" ownership interest in the well and does not pay its proportionate share of drilling and testing costs for the well. Under these arrangements, we usually minimize the Company's cost to drill and also receive a minority interest from the reserves we discover. On the other hand, we occasionally incur extra expenses for drilling or development that we choose, in our discretion, not to pass on to other venture participants.

Petroleum Activities

We began drilling the Ekho No. 1 on February 7, 2000. We hoped to drill into a naturally fractured area of the target formation to achieve natural flow potential. The well did encounter oil that is 48.6 API gravity and 1,460 Btu gas with no hydrogen sulfide, carbon dioxide, nitrogen or water. Gravity is the determining factor in the value of oil, the higher the gravity the more valuable the oil. Generally oil gravity in Kern County is 13 to 35 gravity. Btu (British thermal units) is the method used to determine the energy value of natural gas, the higher the btu the more valuable the gas. 1,460 Btu gas is considered to be a very high value. H2S (hydrogen sulfide/poison gas), CO2 (carbon dioxide), nitrogen and water are contaminants, which increase operating costs and decrease the value of the gas. However, the borehole encountered "tight" sands or a formation of low permeability, which will require artificial fracturing to provide avenues for the oil and gas to flow at higher rates. The term 'tight sands' refers to gas bearing sands that holds gas too tightly for conventional extraction to bring it to the surface economically without special stimulation.

This additional cost came at a time when the Canadian partners in the joint venture encountered national market conditions that precluded them from raising sufficient funds to stay in the project and all but one of the Canadian partners elected not to continue. Tri-Valley is in the process of repartnering the project with stronger partners to assure that the project can go forward through completion of the Ekho No. 1.

Precious Metals Activity

The price of gold has fluctuated in the last 12 months from a high of $292.85 per oz. to a low of $256.70 per oz. As funds become available the Company will continue to explore its claim block for discovery success. Historically the Company has done its exploration on a seasonal basis, normally in the warmer months.

We are confident that other parties will be willing to participate when the price of gold recovers.

Telecommunications

In May 1998, we loaned $125,000, secured by partnership property, to Third Mobile of Central New York, a partnership that owned wireless cable properties and licenses. The partnership filed chapter 11 bankruptcy in the bankruptcy court in Sacramento, CA. We pursued our claim in bankruptcy court, for the loan amount plus our attorney fees and expenses. In the fourth quarter of 2001, we received $200,000 plus related equipment from the partnership in a settlement which was approved by the bankruptcy court. We decided not to pursue any further investment in the telecommunications business.

Results of Operations

Comparison of Years Ended December 31, 2001 and 2000

Balance Sheet

The Company had $911,913 cash on hand at December 31, 2001 compared to $1,373,570 at December 31,2000. This decrease resulted from the Company spending funds that had been advanced by our joint venture partners to drill Sunrise-Mayel#1. Accounts receivables were $711,136 less in 2001 due to the receipts owed us at the end of 2000, which were higher, as the price per mcf of gas was much higher in 2000 than in 2001. Trade accounts payable were $284,016 less in the year ending 2001 due to reduced drilling activity in the latter part of 2001 compared to 2000. Accounts payable to joint venture participants was $480,511 less in 2001 than in 2000 due to the amounts and timing of revenue receipts and their distribution to the participants. The $125,000 note receivable that was recorded on our balance sheet on December 31, 2000, was repaid with interest and expenses during 2001 in settlement of a claim we made in bankruptcy court.

Revenues

Oil and gas income amounted to $1,656,265 for the year ended 2001 compared to $1,044,013 for the year ended 2000. This increase was mainly due to the increase in natural gas prices paid for our production in northern California during the first half of 2001 compared to 2000. Our oil and gas income includes sales of oil and gas, royalties, and partnership income. The decrease of $645,074 in sale of oil and gas prospects was because the prospect we sold in 2001 was smaller than the prospect sold in 2000.

Gain on sale of property was $154,760 less in 2001 because we had no sale of property in 2001. Sale of oil and gas prospects is $645,074 less in 2001 compared to 2000 because of the smaller prospect sales in 2001 than in 2000.

Interest income decreased $75,637 for the year ended 2001 compared to the year ended 2000 due to reduced funds on deposit earning interest. Other income increased $196,037 due to the settlement and payment of the telecommunications claim.

Costs and Expenses

Costs and expenses are $1,309,470 less in the year ended 2001 compared to the year ended 2000. Mining expenses were $60,901 greater due to more exploratory activity on our Alaska claims. Workover expenses were $202,932 more in 2001 due to more wells having work done on them to enhance production capabilities. The cost of oil and gas prospects sold was $275,889 less in 2001 due to the size of the prospect we sold being smaller than the one sold in 2000. General and administrative costs were $813,462 less this year due to the settlement of a lawsuit and the costs related to it in the year ended December 31, 2000. Our well write-off expenses were $490,921 less in 2001 due to the fact we did not write off any wells in the year 2001.

Comparison of Years Ended December 31, 2000 and 1999

Balance Sheet

We had $1,373,570 cash on hand at December 31, 2000 compared to $8,050,469 at December 31, 1999. This decrease was the result of our spending funds that had been advanced by our joint venture partners to drill Ekho #1. Trade accounts receivable are $663,177 (427% greater) for the year ended December 31, 2000 compared to the same period last year. This was the result of increased production due to re-working of some of our wells and the increase of natural gas prices. Trade accounts payable were $189,913 (48% greater) in the year ended December 31, 2000 due to invoices to be paid related to drilling the Sunrise-Mayel #1 well. Accounts payable to joint venture participants is larger this year due to accrued revenue at year-end on their behalf. The decrease in advances from joint venture participants is because at year end 1999 we had funds on deposit for the Ekho #1 that were paid out over 2000 as the well was drilled.

Revenues

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

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

Other income dropped to $34,862 in 2000 from $261,460 in 1999, because Placer Dome USA, paid us $225,000 pursuant to an option agreement to conduct exploration activities, which we signed in 1999.

Costs and Expenses

Costs and expenses are $883,920 greater for the fiscal year 2000, a 33% increase. The oil and gas lease expenses were $426,428 larger due to the write off of a well that was drilled in a previous year. Cost of oil and gas prospects sold are $276,051 (26%) less this year because this prospect was smaller than the one sold in 1999. General and administrative expenses are $928,847 (107%) greater due to legal costs and the settlement of a lawsuit filed in 1997.

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

Financial Condition

Commitments

Generally, our financial commitments arise from selling interests in our drilling prospects to third parties, which results in an obligation to drill and develop the prospect. If we are unable to sell sufficient interests in a prospect to fund its drilling and development, we must either amend our agreements to drill the prospect, locate a substitute prospect acceptable to the participants or refund the participants' funds. At December 31, 2001, we had drilling commitments resulting from the sale of prospects that amounted to approximately $850,000. At December 31, 2000, our commitments amounted to approximately $750,000.

Delay rentals for oil and gas leases amounted to $726,854 in 2001. Advance royalty payments and gold mining claims maintenance fees were $126,885 for the same period. We expect that approximately equal delay rentals and fees will be paid in 2002 from operating revenues.

Losses from Operating Activities

Tri-Valley had a positive cash flow of $45,072 for the year ended 2001 compared to a negative cash flow of $6,769,317 during 2000, primarily due to well workover expenses in 2001. The Company hopes to have a positive cash flow in the fiscal year 2002 by increasing exploration activity. Our internal source of liquidity is derived from our prospect and oil and gas sales. External capital is generally acquired through the sale of our restricted common stock in private transactions.

In 2000, we had negative cash flow largely because of a one-time charge of $600,000 to settle a lawsuit between us and a former consultant. Also, we incurred a write-off of a well deemed to be non-commercial. In 1999, joint venture participants advanced $7,742,568 for the Ekho #1 well. In 2000, we recorded a decrease of funds advanced of $5,359,863 as we expended the funds to drill the well.

Investing Activities

In 2001, we spent $702,613 on capital expenditures, compared to $293,489 in 2000. The capital expenditures were incurred in connection with leasing activities. Our proceeds from sale of property decreased by $154,760 in 2001. Overall, our cash used by investing activities rose to $557,655 in 2001 from $155,782 in 2000, a $401,873 increase.

In 2000, we spent $293,489 on capital expenditures, compared to $91,713 in 1999 - a 220% increase. These capital expenditures were incurred in connection with leasing activities. Our proceeds from sale of property increased by $74,760 (93%) in 2000 to $154,760, compared to $80,000 in 1999. Overall, our cash used by investing activities rose to $155,782 in 2000 from $13,033 in 1999, a $142,749 (1,095%) increase.

Financing Activities

Cash provided by financing activities was $50,926 in fiscal year 2001 compared to cash provided financing activities of $248,200 for fiscal 2000 and $178,338 for fiscal 1999.

The Company in recent years has financed a portion of its operations by the sale of the Company's common stock in private placement transactions. In 2001, we raised $57,000 from private placements of common stock, compared to $285,000 in 2000 and $171,499 in 1999.

The overall changes in all activity related to our cash flows in 2001 were directly related to the difference in the size of projects in 2001 compared to the projects in 2000. In 2000 we had large expenditures (compared to other years) for drilling the Ekho #1 well, for which the funds were largely raised in 1999.

Liquidity

The recoverability of the Company's oil and gas properties is dependent of future events, including obtaining adequate financing for its exploration and development program, the successful completion of its planned drilling program, and the achievement of a level of operating revenues that is sufficient to support the Company's cost structure. At various times during the life of the Company to date, it has been necessary for the Company to raise additional capital through private placements of equity financing. When such a need has arisen, the Company has met it successfully. It is management's belief that it will continue to be able to meet its needs for additional capital as such needs arise in the future. Tri-Valley Corporation's needs for additional financing may include the following:

- Additional capital may be required to pay for Tri-Valley Corporation's share of costs relating to the drilling prospects and development of those that are successful, and to acquire additional oil and gas leases. The total amount of the Company's capital needs will be determined in part by the number of prospects generated within its exploration program and by the working interest that the Company retains in those prospects.

Should the Company choose to make an acquisition of producing oil and gas properties, it is likely that such an acquisition would require that some portion of the purchase price be paid in cash, and thus would create need for additional capital. Additional capital could be obtained from a combination of funding sources. The potential funding sources include:

- Cash flow from operating activities,
- Borrowings from financial institutions,
- Debt offerings, which could increase the Company's leverage and add to its need for cash to service such debt,
- Additional offerings of the Company's equity securities, which would cause dilution of its common stock,
- Sales of portions of its working interest in the prospects within its exploration program, which would reduce future revenues from its exploration program,
- Sale to an industry partner of a participation in the Company's exploration program,
- Sale of all or a portion of the Company's producing oil and gas properties, which would reduce future revenues.

Tri-Valley's ability to raise additional capital will depend on the results of its operations and the status of various capital and industry markets at the time such additional capital is sought. Accordingly, there can be no assurances that capital will be available to the Company from any source or that, if available, it will be on terms acceptable to the Company.

ITEM 8: FINANCIAL STATEMENTS

TRI-VALLEY CORPORATION
INDEX

REPORT OF INDEPENDENT AUDITOR

The Board of Directors
Tri-Valley Corporation
Bakersfield, California

We have audited the accompanying consolidated balance sheets of Tri-Valley Corporation as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly in all material respects the financial position of Tri-Valley Corporation at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

BROWN ARMSTRONG RANDALL PAULDEN

McCOWN HILL STARBUCK & KEETER

ACCOUNTANCY CORPORATION

Bakersfield, California
February 13, 2002

TRI-VALLEY CORPORATION
CONSOLIDATED BALANCE SHEETS

		December 31,		
		2001		2000
ASSETS				
Current Assets				
Cash	$	911,913	$	1,373,570
Accounts receivable, trade		107,225		818,361
Prepaid expenses		12,029		12,029
Total Current Assets		1,031,167		2,203,960
Property and Equipment, Net (Notes 1 and 2)		2,010,457		1,357,959
Other Assets				
Deposits		104,705		100,105
Note receivable (Note 9)		-		125,000
Investments in partnerships (Note 1)		9,101		29,059
Goodwill (net of accumulated amortization of $221,439 and $210,593 at December 31, 2001 and 2000, respectively) (Note 1)		212,414		223,260
Other		13,913		13,914
Total Other Assets		340,133		491,338
TOTAL ASSETS	$	3,381,757	$	4,053,257
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Notes payable (Note 3)	$	8,265	$	10,672
Trade accounts payable		297,001		581,017
Amounts payable to joint venture participants		59,631		540,142
Advances from joint venture participants, net (Note 1)		2,654,713		2,517,737
Total Current Liabilities		3,019,610		3,649,568
Long-Term Portion of Notes Payable (Note 3)		8,371		12,038
Shareholders' Equity				
Common stock, $.001 par value; 100,000,000 shares authorized; 19,689,748 and 19,554,748 issued and outstanding				

at December 31, 2001 and 2000, respectively		19,690		19,555
Less: common stock in treasury, at cost, 179,42 and 179,425				
shares at December 31, 2001 and 2000, respectively		(21,913)		(21,913)
Capital in excess of par value		8,746,653		8,666,688
Accumulated deficit		(8,390,654)		(8,272,679)
Total Shareholders' Equity		353,776		391,651
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	3,381,757	$	4,053,257

TRI-VALLEY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,					
		2001		2000		1999
Revenues						
Sale of oil and gas	$	1,446,308	$	891,774	$	444,429
Royalty income		6,952		11,406		4,699
Partnership income		203,005		140,833		73,463
Gain on sale of property		-		154,760		77,434
Interest income		23,597		99,234		32,353
Sale of oil and gas prospects		218,426		863,500		1,792,291
Other income		231,899		35,862		261,460
Total Revenues		2,130,187		2,197,369		2,686,129
Costs and Expenses						
Mining exploration costs		223,643		162,741		193,069
Oil and gas leases		91,440		72,213		155,237
Well workover						