

TIDELANDS OIL & GAS CORP/WA  
Form 10-Q/A  
January 23, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

\_\_\_\_\_  
Form 10-Q/A  
\_\_\_\_\_

(Mark one)

Quarterly Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934

For the quarterly period ending June 30, 2007

Transition Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-29613

TIDELANDS OIL & GAS CORPORATION  
(Exact name of small business issuer as specified in its charter)

Nevada  
(State of incorporation)

66-0549380  
(IRS Employer ID Number)

1862 West Bitters Rd., San Antonio, TX 78248  
(Address of principal executive offices)

(210) 764-8642  
(Issuer's telephone number)

Securities registered under Section 12 (b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:  
Common Stock - \$0.001 par value

Check whether the issuer has (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period the Company 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of "accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer , Accelerated filer , Non-accelerated filer

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of August 14, 2007, there were 106,084,806 shares of Common Stock issued and outstanding.

Transitional Small Business Disclosure Format: Yes  No

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EXPLANATORY NOTE

As previously disclosed in our report on Form 8-K filed on November 19, 2007, the Board of Directors of Tidelands Oil & Gas Corporation, after discussions with our registered independent public accounting firm, determined that the accounting treatment of certain options issued to its directors (the "Options") originally reported on its Quarterly Report of Form 10-Q for the three and six months ended June 30, 2007 was incorrect and required revision. We are filing this amendment to the prior report on Form 10-Q for the period ended June 30, 2007 to make this correction.

This Amendment corrects the accounting treatment of the Options to comply with the provisions of Financial Accounting Standards Board Statement No. 123 Share Based Payment (FAS 123(R)). FAS 123(R) was adopted by the Company on January 1, 2006; however, with respect to the Options, the Company inadvertently failed to record the appropriate expense for such Options in accordance with FAS 123(R).

The Company uses the Black-Scholes option pricing model to compute the fair value of stock options, which requires the Company to make the following assumptions:

The risk-free interest rate is based on the short-term Treasury bond at date of grant.  
The dividend yield on the Company's common stock is assumed to be zero since the Company does not pay dividends and has no current plans to do so.

The market price volatility of the Company's common stock is based on daily historical prices for the twelve months previous to the grant date.

The term of the grants is the current year since all grants are vested at the time of the grants; therefore, the entire fair value of stock-based compensation was recorded in 2007.

We have also revised the related narrative as it relates to these changes in the condensed consolidated financial statements, including additional disclosure in the Notes thereto under the heading "Summary of Restated Interim Reports" and have revised the disclosure in Part I, Item 2 "Management's Discussion and Analysis" and Part I, Item 4 "Controls and Procedures". In addition, currently-dated certifications from our Chief Executive Officer and Chief Financial Officer have been included as exhibits to this Amendment.

Other than as set forth above, there are no other significant changes to the original 10-Q and this 10-Q/A does not reflect events occurring after the filing of the original 10-Q, or modify or update disclosures therein in any other way.

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TIDELANDS OIL & GAS CORPORATION  
FORM 10-Q

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## PART 1 – FINANCIAL INFORMATION

## Item 1. Financial Statements

TIDELANDS OIL & GAS CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

## ASSETS

	June 30, 2007 (Restated- Note 7) (Unaudited)	December 31, 2006
Current Assets:		
Cash	\$ 85,762	\$ 367,437
Accounts and Other Receivable	163,438	388,754
Inventory	115,782	84,030
Prepaid Expenses	411,571	148,551
Total Current Assets	776,553	988,772
Property Plant and Equipment, Net	10,995,265	12,364,359
Other Assets:		
Deposits	187,324	56,708
Cash Restricted	53,703	52,642
Deferred Charges	0	565,221
Goodwill	1,158,937	1,158,937
Total Other Assets	1,399,964	1,833,508
Total Assets	\$ 13,171,782	\$ 15,186,639

## LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Current Maturities - Note Payable	\$ 7,303,290	\$ 225,000
Accounts Payable and Accrued Expenses	2,381,748	1,624,752
Customer Deposits	9,150	0
Reserve for Litigation	2,250,000	2,250,000
Total Current Liabilities	11,944,188	4,099,752
Long-Term Debt	0	8,934,294
Total Liabilities	11,944,188	13,034,046
Stockholders' Equity:		
Common Stock, \$.001 Par Value per Share, 250,000,000 Shares Authorized, 104,908,344 and 86,457,922 Shares Issued and Outstanding at	104,909	86,459

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June 30, 2007 and December 31, 2006

Respectively

Additional Paid-in Capital	55,434,193	46,703,202
Subscriptions Receivable	(110,000)	(220,000)
Minority Interest	-	-
Accumulated (Deficit)	(54,201,508)	(44,417,068)
Total Stockholders' Equity	1,227,594	2,152,593
Total Liabilities and Stockholders' Equity	\$ 13,171,782	\$ 15,186,639

See Accompanying Notes to Unaudited Consolidated Financial Statements

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TIDELANDS OIL & GAS CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months Ended June 30, 2007 (Restated)	Three Months Ended June 30, 2006
Revenues:		
Gas Sales and Pipeline Fees	\$ 405,372	\$ 392,108
Construction Services	78,627	15,016
Total Revenues	483,999	407,124
Expenses:		
Cost of Sales	206,876	206,413
Operating Expenses	92,732	99,587
Depreciation	123,135	116,038
Impairment Loss	2,605,061	0
Interest Expense	182,322	373,950
Stock-Based Compensation – Related Parties	1,105,498	597,500
Sales, General and Administrative	834,858	1,002,303
Total Expenses	5,150,482	2,395,791
(Loss) From Operations	(4,666,483)	(1,988,667)
Other Income (Expense)		
(Loss) on Sale of Assets	(6,888)	0
Interest and Dividend Income	7,249	28,118
Miscellaneous	38	0
Total Other Income (Expenses)	399	28,118
Net (Loss)	\$ (4,666,084)	\$ (1,960,549)
Net (Loss) Per Common Share:		
Basic and Diluted	\$ (0.05)	\$ (0.03)
Weighted Average Number of Common		
Shares Outstanding	101,798,627	80,080,815





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TIDELANDS OIL & GAS CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Six Months Ended June 30, 2007 (Restated)	Six Months Ended June 30, 2006
Revenues:		
Gas Sales and Pipeline Fees	\$ 1,407,254	\$ 1,064,614
Construction Services	180,716	144,404
Total Revenues	1,587,970	1,209,018
Expenses:		
Cost of Sales	774,597	583,279
Operating Expenses	176,103	184,118
Depreciation	245,744	231,802
Impairment Loss	2,605,061	0
Interest Expense	528,426	485,009
Stock-Based Compensation – Related Parties	4,872,498	1,187,400
Sales, General and Administrative	2,171,005	2,255,345
Total Expenses	11,373,434	4,926,953
(Loss) From Operations	(9,785,464)	(3,717,935)
Other Income (Expense)		
(Loss) on Sale of Assets	(6,888)	0
Interest and Dividend Income	7,874	61,739
Miscellaneous	38	0
Total Other Income (Expenses)	1,024	61,739
Net (Loss)	\$ (9,784,440)	\$ (3,656,196)
Net (Loss) Per Common Share:		
Basic and Diluted	\$ (0.10)	\$ (0.05)
Weighted Average Number of Common		
Shares Outstanding	95,683,133	79,876,700

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements



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TIDELANDS OIL & GAS CORPORATION  
STATEMENTS OF CONDENSED CONSOLIDATED CASH FLOWS  
(UNAUDITED)

	Six Months Ended June 30, 2007 (Restated)	Six Months Ended June 30, 2006
Cash Flows Provided (Required) By		
Operating Activities:		
Net (Loss)	\$ (9,784,440)	\$ (3,656,196)
Adjustments to Reconcile Net (Loss)		
to Net Cash Provided (Required) By		
Operating Activities:		
Depreciation	245,744	231,802
Impairment Loss	2,605,061	0
Issuance of Common Stock:		
For Services Provided – Related Parties	4,872,498	1,187,400
For Services Provided – Other	908,967	311,900
Changes in:		
Accounts Receivable	225,316	161,714
Inventory	(31,752)	57,858
Prepaid Expenses	(208,854)	(115,873)
Deferred Charges	565,221	(1,264,245)
Deposits	(50)	(60,000)
Restricted Cash	(1,061)	25,096
Accounts Payable and Accrued Expenses	1,100,240	(89,539)
Customer Deposits	9,150	0
Net Cash Provided (Required) By Operating Activities	506,040	(3,210,083)
Cash Flows (Required)		
By Investing Activities:		
Proceeds from Sale of Assets	2,200	0
Acquisitions of Property, Plant and Equipment	(1,483,911)	(1,383,436)
Net Cash (Required) By Investing Activities	(1,481,711)	(1,383,436)

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements



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TIDELANDS OIL & GAS CORPORATION  
STATEMENTS OF CONDENSED CONSOLIDATED CASH FLOWS  
(CONTINUED)

(UNAUDITED)

	Six Months Ended June 30, 2007 (Restated)	Six Months Ended June 30, 2006
Cash Flows Provided		
by Financing Activities:		
Proceeds from Stock Subscriptions Receivable	0	110,000
Proceeds from Exercise of Stock Option	550,000	0
Proceeds from Long-Term Loans	0	6,678,415
Proceeds from Short-Term Loan	143,996	0
Repayment of Loan by Related Party	0	3,219
<b>Net Cash Provided by Financing Activities</b>	<b>693,996</b>	<b>6,791,634</b>
<b>Net Decrease (Increase) in Cash</b>	<b>(281,675)</b>	<b>2,198,115</b>
<b>Cash at Beginning of Period</b>	<b>367,437</b>	<b>1,113,911</b>
<b>Cash at End of Period</b>	<b>\$ 85,762</b>	<b>\$ 3,312,026</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash Payments for Interest	\$ 103,301	\$ 408,657
Cash Payments for Income Taxes	\$ 0	\$ 0
<b>Non-Cash Investing and Financing Activities:</b>		
<b>Issuance of Common Stock:</b>		
Payments of Accrued Expenses & Accounts Payable	\$ 343,244	\$ 445,000
Conversion of Debentures	2,000,000	0
Legal Fee – Retainer	130,566	0
Prepaid Legal Fees	54,166	0
<b>Cancellation of Common Stock:</b>		
In Payment of Stock Subscription	(110,000)	0
<b>Total Non-Cash Investing and Financing Activities</b>	<b>\$ 2,417,976</b>	<b>\$ 445,000</b>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements



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TIDELANDS OIL & GAS CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2007  
(UNAUDITED)

NOTE 1—BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements for the six month periods ended June 30, 2007, and 2006, have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Please note that the prior year's presentations for the Condensed Consolidated Statement of Operations and the Condensed Consolidated Statements of Cash Flows were changed to conform to current year's presentation. The financial information as of December 31, 2006, is derived from the registrant's Form 10-K for the year ended December 31, 2006. Certain information or footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, the accompanying financial statements include all adjustments necessary (which are of a normal and recurring nature) for the fair presentation of the results of the interim periods presented. While the registrant believes that the disclosures presented are adequate to keep the information from being misleading, it is suggested that these accompanying financial statements be read in conjunction with the registrant's audited consolidated financial statements and notes for the year ended December 31, 2006, included in the registrant's Form 10-K for the year ended December 31, 2006.

Operating results for the six-month period ended June 30, 2007, are not necessarily indicative of the results that may be expected for the remainder of the fiscal year ending December 31, 2007. The accompanying unaudited condensed consolidated financial statements include the accounts of the registrant, its wholly-owned subsidiaries, Rio Bravo Energy, LLC, Sonora Pipeline, LLC, Sonterra Energy Corporation, Arrecefe Management, LLC, Marea Associates, LP, Reef Ventures, LP, Reef International, LLC, Reef Marketing, LLC, Terranova Energia S. de R. L. de C. V., Esperanza Energy, LLC, and Tidelands Exploration & Production Corporation. All significant inter-company accounts and transactions have been eliminated in consolidation.

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TIDELANDS OIL & GAS CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2007  
(UNAUDITED)

NOTE 2– GOING CONCERN

The Company has sustained recurring losses and negative cash flows from operations. Over 2006, the Company's growth had been funded through issuance of convertible debentures. As of June 30, 2007, the Company had approximately \$85,762 of unrestricted cash. However, the Company has experienced and continues to experience negative cash flows from operations, as well as an ongoing requirement for substantial additional capital investment. The Company needs to raise substantial additional capital to accomplish its business plan this year and over the next several years. The Company is seeking to obtain such additional funding through private equity sources, from financial partners for some of its projects and the possible sale of certain operating assets along with a continued reduction of operating expenses. There can be no assurance as to the availability or terms upon which such financing and capital might be available or that asset sales will be possible at suitable pricing.

The Company's ability to continue as a going concern will depend on management's ability to successfully implement a business plan which will increase revenues, control costs, and obtain additional forms of debt and/or equity financing or financial partners. These financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE 3– IMPAIRMENT CHARGE

The Company incurred a non-cash impairment charge as of June 30, 2007, to reflect the difference between the carrying value and the market value of the affected asset which is its natural gas pipeline between Eagle Pass, Texas and Mexico. The charge taken was \$2,605,061 which reduced the gross value on the Company's books to \$3,501,194 from \$6,106,255 before taking accumulated depreciation into account.



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TIDELANDS OIL & GAS CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2007  
(UNAUDITED)

## NOTE 4– PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment at June 30, 2007 and December 31, 2006 is as follows:

	June 30, 2007	December 31, 2006	Estimated Economic Life
Pre-Construction Costs:			
International Crossings to Mexico Mexican Gas Storage Facility and Related Pipelines	\$ 960,744	\$ 818,271	N/A
Domestic LNG System	2,679,894	2,359,451	N/A
Total	2,572,852	1,567,642	N/A
	6,213,490	4,745,364	
Office Furniture, Equipment and Leasehold Improvements			
	182,798	185,174	5 Years
Pipeline – Eagle Pass, TX to Piedras Negras, Mexico			
	3,501,194	6,106,255	20 Years
Tanks & Lines – Propane Distribution System			
	1,913,163	1,908,247	5 Years
Machinery and Equipment	75,185	67,357	5 Years
Trucks, Autos and Trailers	126,464	126,464	5 Years
Pipeline – South TX Gas Production	490,000	490,000	15 Years
Well Equipment	2,371	2,060	5 Years
Leaseholds	11,700	10,000	N/A
	12,516,365	13,640,921	
Less: Accumulated Depreciation	1,521,100	1,276,562	
	\$ 10,995,265	\$ 12,364,359	

Depreciation expense for the six months ended June 30, 2007 and for the year ended December 31, 2006 was \$245,744 and \$466,241 respectively.

## NOTE 5– LONG-TERM DEBT

A summary of long-term debt at June 30, 2007 and December 31, 2006 is as follows:

	June 30, 2007	December 31, 2006
Note Payable, Secured by Reef International		

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Pipeline, Interest Bearing at 2% Over Prime Rate, Maturing May 25, 2008	\$ 4,928,999	\$ 4,785,003
Convertible Debentures, Unsecured, Including Prepaid Interest, Maturing January 20, 2008	2,374,291 7,303,290	4,374,291 9,159,294
Less: Current Maturities	7,303,290	225,000
Total Long-Term Debt	\$ 0	\$ 8,934,294

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TIDELANDS OIL & GAS CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2007  
(UNAUDITED)

NOTE 6– COMMON STOCK TRANSACTIONS

On April 2, 2007, the Company issued 246,212 shares of its common stock valued at \$54,167 to law firm for 2007 legal services related to securities law matters.

On April 4, 2007, the Company issued 125,000 shares of its restricted common stock valued at \$25,000 for 2007 investor public relations services.

On April 10, 2007, the Company issued 1,190,476 shares of its common stock to a Director for \$250,000 as a result of his exercise of stock options at \$0.21 per share.

On April 16, 2007, the Company issued 53,441 shares of its common stock to a Director/Officer valued at \$8,551 as compensation for services and related costs.

On April 18, 2007, the Company issued 50,000 shares of its common stock to an officer valued at \$8,000 in accordance with his employment contract.

On May 9, 2007, the Company issued 103,478 shares of its common stock to a Director/Officer valued at \$10,348 as compensation for services and related costs.

On May 10, 2007, the Company issued 476,190 shares of its common stock to a Director for \$100,000 as a result of his exercise of stock options at \$0.21 per share.

On May 22, 2007, the Company issued 641,667 shares of its common stock valued at \$77,000 to a law firm for future services regarding ongoing litigation.

On May 30, 2007, the Company issued 2,692,308 shares of its common stock valued at \$350,000 for future legal services connected with listing its stock on European stock exchanges.

On June 1, 2007, the Company issued 40,663 shares of its common stock to a Director/Officer valued at \$6,099 as compensation for services and related costs.

On June 6, 2007, the Company issued a total of 600,000 shares of its restricted common stock valued at \$90,000 as stock bonuses to two officers and an employee.

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TIDELANDS OIL & GAS CORPORATION  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 JUNE 30, 2007  
 (UNAUDITED)

NOTE 7– SUMMARY OF RESTATED INTERIM REPORT

On November 14, 2007, the Board of Directors of Tidelands Oil & Gas Corporation (the “Company”), determined that the accounting treatment of certain options issued to its directors (the “Options”) originally reported on its (i) Quarterly Report of Form 10-Q for the three months ended March 31, 2007, and (ii) Quarterly Report for the three and six months ended June 30, 2007 (the “Prior Reports”), was incorrect and required revision. Therefore, the Board of Directors has determined that the financial statements in the Company’s Prior Reports should not be relied upon and should be restated.

The adjustments to the Prior Reports listed below correct the accounting treatment of the Options to comply with the provisions of Financial Accounting Standards Board Statement No. 123 Share Based Payment (FAS 123(R)). FAS 123(R) was adopted by the Company on January 1, 2006; however, with respect to the Options, the Company inadvertently failed to record the appropriate expense for such Options in accordance with FAS 123(R).

The Company uses the Black-Scholes option pricing model to compute the fair value of stock options, which requires the Company to make the following assumptions:

- § The risk-free interest rate is based on the short-term Treasury bond at date of grant.
- § The dividend yield on the Company’s common stock is assumed to be zero since the Company does not pay dividends and has no current plans to do so.
- § The market price volatility of the Company’s common stock is based on daily historical prices for the twelve months previous to the grant date.
- § The term of the grants is the current year since all grants are vested at the time of the grants; therefore, the entire fair value of stock-based compensation was recorded in 2007.

The Company has now recognized the fair value stock option compensation expense as follows:

Quarterly Report of 10-Q for the Three Months Ended March 31, 2007	\$ 2,667,000
Quarterly Report of 10-Q for the Three Months Ended June 30, 2007	971,000
Total for the Six Months Ended June 30, 2007	\$ 3,638,000

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TIDELANDS OIL & GAS CORPORATION  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 JUNE 30, 2007  
 (UNAUDITED)

NOTE 7– SUMMARY OF RESTATED INTERIM REPORTS (CONTINUED)

The transactions referred to above relate to non-cash charges and did not affect the Company’s revenues, cash flows from operations, liquidity, assets, liabilities or total stockholders’ equity.

	Three Months Ended March 31, 2007		
	Previously Reported	Restatement Adjustment	Restated Amount
Consolidated Balance Sheets:			
Total Assets	\$ 15,475,483	\$ -	\$ 15,475,483
Total Liabilities			