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TIDELANDS OIL & GAS CORP/WA

Form 8-K

April 17, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

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

Date of Report: April 17, 2006

TIDELANDS OIL & GAS CORPORATION

(Exact Name of registrant as specified in its Charter)

Nevada	0-29613	66-0549380
-----	-----	-----
State of Incorporation	Commission File No.	I.R.S. Employer Identification No.
1862 West Bitters Rd. San Antonio, TX		78248
-----		-----
(Address of principal executive offices)		(Zip Code)
Registrant's telephone number, (210) 764 - 8642		
-----	-----	-----

(Registrant's former name and address)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions below:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17CFR 240-14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240-13e-4(c))

Item 4.02 Non-Reliance on Previously Issued Financial Statements or a Related

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Audit Report or Completed Interim Review

On April 12, 2006, the Board of Directors of the Company concluded that its audited financial statements for the fiscal year ended December 31, 2004 and the unaudited financial statements for the interim periods ended March 31, 2005, June 30, 2005, and September 30, 2005 (the "Relevant Periods") are required to be restated and should no longer be relied on because they did not reflect proper accounting treatment of the following matters: (1) Goodwill associated with the acquisition of partnership interests of Reef Ventures, L.P (May 2004) and the related derivative liability for warrants issued as part of the purchase price, (2) issuance of convertible debentures with freestanding warrants and embedded beneficial conversion features, and (3) valuation of stock issued for services and financing costs.

Management, after their review of Emerging Issues Task Force 00-19 "Accounting For Derivative Financial Instruments Indexed To, and Potentially Settled In, A Company's Own Stock", has concluded that it is necessary to account for goodwill and the related derivative liability associated with the May 2004 acquisition of partnership interests in Reef Ventures, L.P. At December 31, 2004 the net effect of this adjustment results in an increase in goodwill of \$5,200,000, an increase in the derivative liability of \$5,168,000, a gain on reduction of the derivative liability of \$15,390,000 and a goodwill impairment loss of \$15,358,000.

Management, after reviewing Statement of Financial Accounting Standards 133 "Accounting for Derivative Instruments and Hedging Activities" and Emerging Issues Task Force 00-19, has determined that the convertible debentures issued in November 2004 contain an embedded beneficial conversion feature. Accordingly, at December 31, 2004, this charge to the statement of operations amounted to \$3,092,105.

Management also reviewed all stock issued for services and financing costs in 2004, and in accordance with the provisions outlined in Emerging Issues Task Force 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" and Statement of Financial Accounting Standards 123 "Accounting for Stock-Based Compensation", increased the charges associated with these stock issuances by \$4,724,750 at December 31, 2004.

All of the transactions referred to above relate to non-cash charges and do not affect the Company's revenues, cash flows from operations or liquidity.

After reviewing the circumstances leading up to the restatements for the Relevant Periods above, the Company believes that the errors were unintentional and related to misinterpretation of the accounting rules mentioned above. However, Item 308(a)(3) of Regulation S-B states that "Management is not permitted to conclude that the small business issuer's internal control over financial reporting is effective if there are one or more material weaknesses in the small business issuer's internal control over financial reporting." As a result of the restatements to our December 31, 2004 financial statements and our quarterly reports for the periods ending March 30, June 30 and September 30, 2005, as disclosed in this Current Report on Form 8-K, our Chief Executive Officer and Principal Accounting Officer, can no longer conclude that after evaluating the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) for the Relevant Periods, that our disclosure controls and procedures were

effective to provide reasonable assurance that information we are required to

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disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

However, the Company believes that its restatement to its December 31, 2004 financial statements and restatements to quarterly reports for March 31, June 30 and September 30, 2005 financial statements, will be a one time occurrence and that moving forward our Controls and Procedures will once again be effective as the embedded derivative accounting matters contained in the December 31, 2004, March 30, June 30 and September 30, 2005 financial statements involved a highly complex transaction involving an "unconventional" warrants and convertible debt instruments, and the Company does not anticipate entering into any additional complex financing transactions involving derivatives in the future. The Company is utilizing the guidelines communicated to it by the SEC after various communications regarding accounting for derivatives. Similar SEC guidance is also being utilized with respect to the issuance of common stock for services and financing costs and the Company anticipates a dramatic reduction in the use of common stock for these purposes in the future.

SUMMARY OF RESTATED FINANCIAL STATEMENTS DECEMBER 31, 2004

	Previously Reported		Restatement Adjustment	Restated Total
	-----		-----	-----
Consolidated Balance Sheets:				
Total Assets	\$ 17,222,666	(1)	\$ 5,200,000	\$ 22,422,666
Total Liabilities	12,306,107	(2)	5,168,000	17,474,107
	-----		-----	-----
Stockholders' Equity	\$ 4,916,559		\$ 32,000	\$ 4,948,559
	=====		=====	=====
Consolidated Results of Operations:				
Revenues	1,883,838		0	1,883,838
Expenses	8,451,280	(3,4)	23,174,855	31,626,135
	-----		-----	-----
Net (Loss) from Operations	(6,567,442)		(23,174,855)	(29,742,297)
Derivative Gain	0	(5)	15,390,000	15,390,000
Other Income	50,260		0	50,260
	-----		-----	-----
Net (Loss)	\$ (6,517,182)		\$ (7,784,855)	\$ (14,302,037)
	=====		=====	=====
Net (Loss) per Common Share:				
Basic and Diluted	\$ (0.12)			\$ (0.27)
	=====			=====
Weighted Average Number of Common Shares Outstanding:				
Basic and Diluted	53,214,230			53,214,230
	=====			=====

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SUMMARY OF RESTATED INTERIM REPORTS - 2005

	MARCH 31, 2005			JUNE 30, 2005	
	Previously Reported (1)	Restatement Adjustment	Restated Total	Previously Reported (1)	Restated Total
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 4,623,198	--	\$ 4,623,198	\$ 3,468,839	
Accounts and Loans Receivable	404,488	--	404,488	309,323	
Inventory	60,159	--	60,159	75,573	
Prepaid Expenses	418,362	--	418,362	302,531	
Total Current Assets	5,506,207	--	5,506,207	4,156,266	
Property, Plant and Equipment, Net	9,245,326	--	9,245,326	9,630,591	
Other Assets:					
Deposits	6,608	--	6,608	6,608	
Deferred Charges	38,750	--	38,750	0	
Restricted Cash	75,000	--	75,000	75,846	
Note Receivable	287,170	--	287,170	286,114	
Goodwill	1,158,937	5,200,000	6,358,937	1,158,937	
Total Other Assets	1,566,465	5,200,000	6,766,465	1,527,505	
Total Assets	\$ 16,317,998	\$ 5,200,000	\$ 21,517,998	\$ 15,314,362	\$ 16,317,998
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities:					
Current Maturities of Note Payable	\$ 225,000	\$ --	\$ 225,000	\$ 112,500	\$ 225,000
Convertible Debenture Payable	5,000,000	--	5,000,000	2,480,000	
Accounts Payable and Accrued Expenses	438,830	--	438,830	656,302	
Derivative Liability	0	8,062,500	8,062,500	0	
Total Current Liabilities	5,663,830	8,062,500	13,726,330	3,248,802	
Long-Term Debt:					
Note Payable,					

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less Current Maturities	6,592,301	--	6,592,301	4,255,990	
	-----	-----	-----	-----	-----
Total Liabilities	12,256,131	8,062,500	20,318,631	7,504,792	
	-----	-----	-----	-----	-----
Stockholders' Equity:					
Common Stock	62,364	--	62,364	74,281	
Additional Paid-in Capital	22,918,580	13,151,198	36,069,778	28,655,789	9,5
Subscriptions Receivable	(550,000)	--	(550,000)	(550,000)	
Minority Interest	--	--	--	--	
Accumulated Deficit	(18,369,077)	(16,013,698)	(34,382,775)	(20,370,500)	(9,5
	-----	-----	-----	-----	-----
Total Stockholders' Equity	4,061,867	(2,862,500)	1,199,367	7,809,570	
	-----	-----	-----	-----	-----
Total Liabilities and Stockholders' Equity	\$ 16,317,998	\$ 5,200,000	\$ 21,517,998	\$ 15,314,362	\$
	=====	=====	=====	=====	=====

SUMMARY OF RESTATED INTERIM REPORTS - 2005

SEPTEMBER 30, 2005

	Previously Reported (1)	Restatement Adjustment	Total
	-----	-----	-----
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,336,430	--	\$ 2,336,430
Accounts and Loans Receivable	208,668	--	208,668
Inventory	90,332	--	90,332
Prepaid Expenses	208,879	--	208,879
	-----	-----	-----
Total Current Assets	2,844,309	--	2,884,309
	-----	-----	-----
Property, Plant and Equipment, Net	10,097,779	--	10,097,779
	-----	-----	-----
Other Assets:			
Deposits	6,708	--	6,708
Deferred Charges	0	--	0
Restricted Cash	101,471	--	101,471
Note Receivable	284,944	--	284,944
Goodwill	1,158,937	--	1,158,937
	-----	-----	-----
Total Other Assets	1,552,060	--	1,552,060
	-----	-----	-----
Total Assets	\$ 14,494,148	\$ 0	\$ 14,494,148
	=====	=====	=====

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LIABILITIES AND
STOCKHOLDERS'
EQUITY

Current Liabilities:

Current Maturities of			
Note Payable	\$ 168,750	\$ --	\$ 168,750
Convertible Debenture			
Payable	980,000	--	980,000
Accounts Payable and			
Accrued Expenses	642,457	--	642,457
Derivative Liability	0	--	0
	-----	-----	-----
Total Current			
Liabilities	1,791,207	--	1,791,207
	-----	-----	-----

Long-Term Debt:

Note Payable,			
less Current			
Maturities	4,252,304	--	4,252,304
	-----	-----	-----
Total			
Liabilities	6,043,511	--	6,043,511
	-----	-----	-----

Stockholders' Equity:

Common Stock	77,157	--	77,157
Additional Paid-in			
Capital	30,369,493	9,682,940	40,052,433
Subscriptions			
Receivable	(550,000)	--	(550,000)
Minority Interest			
Accumulated Deficit	(21,446,013)	(9,682,940)	(31,128,953)
	-----	-----	-----
Total Stockholders'			
Equity	8,450,637	--	8,450,637
	-----	-----	-----

Total Liabilities and			
Stockholders' Equity	\$ 14,494,148	\$ 0	\$ 14,494,148
	=====	=====	=====

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SUMMARY OF RESTATED INTERIM REPORTS - 2005

Three Months Ended March 31, 2005			Six Months Ended Ju	
Previously Reported (1)	Restatement (2)	Restated Total	Previously Reported (1)	Restatement (2)
-----	-----	-----	-----	-----

Revenues:

Gas Sales and

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Pipeline Fees	\$ 586,949	\$ --	\$ 586,949	\$ 849,490	\$ --
Construction					
Services	41,126	--	41,126	119,121	--
	-----	-----	-----	-----	-----
Total Revenues	628,075	--	628,075	968,611	--
	-----	-----	-----	-----	-----
Expenses:					
Cost of Sales	284,679	--	284,679	415,248	--
Operating					
Expenses	66,774	--	66,774	129,137	--
Depreciation	115,441	--	115,441	236,395	--
Interest	209,787	--	209,787	393,860	--
Beneficial					
Conversion					
Feature					
Interest	0	4,736,843	4,736,843	0	135,7
Sales, General					
and					
Administrative	1,220,911	597,500	1,818,411	3,098,570	1,578,5
Impairment					
Losses	0	--	0	0	5,200,0
	-----	-----	-----	-----	-----
Total Expenses	1,897,592	5,334,343	7,231,935	4,273,210	6,914,2
	-----	-----	-----	-----	-----
(Loss) from					
Operations	(1,269,517)	(5,334,343)	(6,603,860)	(3,304,599)	(6,914,2
Derivative Gain					
(Loss)	--	(2,894,500)	(2,894,500)	--	5,168,0
Gain (Loss) on					
Equipment Sale	(3,167)	--	(3,167)	(3,167)	--
Interest and					
Dividend Income	35,992	--	35,992	69,651	--
Minority					
Interest	--	--	--	--	--
Litigation					
Settlement	0	--	0	0	--
	-----	-----	-----	-----	-----
Net (Loss)	\$ (1,236,692)	\$ (8,228,843)	\$ (9,465,535)	\$ (3,238,115)	\$ (1,746,2
	=====	=====	=====	=====	=====
Net (Loss) Per					
Common Share,					
Basic and Diluted:	\$ (0.02)	\$ --	\$ (0.15)	\$ (0.05)	\$ --
	=====	=====	=====	=====	=====
Weighted Average					
Number of Common					
Shares Outstanding:					
Basic and					
Diluted	61,893,359	--	61,893,359	67,941,251	--
	=====	=====	=====	=====	=====

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SUMMARY OF RESTATED INTERIM REPORTS - 2005

Nine Months Ended September 30, 2005

Previously Restatement

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	Reported (1)	(2)	Total
	-----	-----	-----
Revenues:			
Gas Sales and Pipeline Fees	\$ 1,097,505	\$ --	\$ 1,097,505
Construction Services	119,121	--	119,121
	-----	-----	-----
Total Revenues	1,216,626	--	1,216,626
	-----	-----	-----
Expenses:			
Cost of Sales	635,113	--	635,113
Operating Expenses	210,545	--	210,545
Depreciation	360,817	--	360,817
Interest	503,950	--	503,950
Beneficial Conversion Feature Interest	0	(501,659)	(501,659)
Sales, General and Administrative	4,022,271	2,556,200	6,578,471
Impairment Losses	0	5,200,000	5,200,000
	-----	-----	-----
Total Expenses	5,732,696	7,254,541	12,987,237
	-----	-----	-----
(Loss) from Operations	(4,516,070)	(7,254,541)	(11,770,611)
Derivative Gain (Loss)	--	5,168,000	5,168,000
Gain (Loss) on Equipment Sale	(3,167)	--	(3,167)
Interest and Dividend Income	96,240	--	96,240
Minority Interest	--	--	--
Litigation Settlement	109,369	188,456	297,825
	-----	-----	-----
Net (Loss)	\$ (4,313,628)	\$ (1,898,085)	\$ (6,211,713)
	=====	=====	=====
Net (Loss) Per Common Share, Basic and Diluted:	\$ (0.06)	\$ --	\$ (0.09)
	=====	=====	=====
Weighted Average Number of Common Shares Outstanding:			
Basic and Diluted	69,378,850	--	69,378,850
	=====	=====	=====

(1) Adjust goodwill to period ending balances.

(2) Adjust to recognize fair value of derivative financial instruments as liabilities at December 31, 2004 (\$5,168,000) and first quarter adjustment (\$2,894,500) necessitated by marking to market the fair value of the derivative.

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- (3) Adjustments associated with the issuance of convertible debentures.
- (4) Adjustments to recognize the fair value of services and related expenses paid for by the issuance of stock.
- (5) Adjustments to recognize the gain / (loss) on changes in the derivative liability. equity to derivative liabilities when the conversion price became variable.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits

Item Number	Description
99.1	Letter from Baum & Co. dated April 14, 2006

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: April 17, 2006

TIDELANDS OIL & GAS CORPORATION

/s/Michael Ward

By: Michael Ward
Title: President, CEO