TIDELANDS OIL & GAS CORP/WA
Form 10QSB
May 14, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-QSB

(Mark one)

[X] Annual Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934

For the quarterly period ending March 31, 2004

[_] 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	66-0549380
(State of incorporation)	(IRS Employer ID Number)

1862 West Bitters Rd., San Antonio, TX 78410
(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 files 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 X No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS
Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of March 31, 2004, there were 48,875,325 shares of Common Stock issued and outstanding.

Transitional Small Business Disclosure Format : Yes ___ No X ___

TIDELANDS OIL & GAS CORPORATION
FORM 10-QSB

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TIDELANDS OIL & GAS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 2004 (Unaudited)	December 31, 2003
Current Assets:		
Cash	$ 3,548,489	$ 894,457
Accounts Receivable	745	228
Prepaid Expenses	580,708	22,209
Total Current Assets	4,129,942	916,894
Property Plant and Equipment, Net	733,170	604,192
Investment - Reef Ventures, L.P.	98,629	98,629
Other Assets:		
Deposits	3,800	3,800
Total Assets	$ 4,965,541	$ 1,623,515

See Accompanying Notes to Condensed Consolidated Financial Statements

TIDELANDS OIL & GAS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2004 (Unaudited)	December 31, 2003
Current Liabilities:		
Accounts Payable and Accrued Expenses	$ 183,811	$ 813,905
Current Maturities of Long-Term Debt	150,000	325,000
Total Current Liabilities	333,811	1,138,905
Long-Term Debt	0	0
Total Liabilities	333,811	1,138,905
Commitments and Contingencies	--	--
Stockholders' Equity:		
Common Stock, $.001 par value per share, 100,000,000 shares authorized; 48,875,325 shares issued and outstanding March 31, 2004, 44,825,302 shares issued and outstanding December 31, 2003	48,876	44,826
Additional Paid-in Capital	16,750,398	11,072,987
Subscriptions Receivable	(18,000)	(18,000)
Accumulated (Deficit)	(12,149,544)	(10,615,203)
Total Stockholders' Equity	4,631,730	484,610
Total Liabilities and Stockholders' Equity	$ 4,965,541	$ 1,623,515

See Accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Revenues	$ 0	$ 5,265
Operating Expenses:		
Operating Expenses	0	5,425
Depreciation	11,280	10,656
Interest	4,719	25,675
Officers & Directors Salaries & Fees	202,608	75,000
General and Administrative	1,319,601	195,792
Total Operating Expenses	1,538,208	312,548
(Loss) From Operations	(1,538,208)	(307,283)
Interest Income	3,867	0
Net (Loss)	$ (1,534,341)	$ (307,283)
Net (Loss) Per Common Share		
Basic	$ (0.03)	$ (0.01)
Weighted Average Number of Common Shares Outstanding, Basic	46,850,314	34,415,079
Diluted	$ (0.03)	$ (0.01)
Weighted Average Number of Common Shares Outstanding, Diluted	58,733,717	35,415,079

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See Accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Cash Flows Provided (Required) By Operating Activities:		
Net (Loss)	$ (1,534,341)	$ (307,283)
Adjustments to Reconcile Net (Loss) to Net Cash Provided (Required) By Operating Activities:		
Depreciation	11,280	10,656
Issuance of Common Stock for Services Provided	1,226,816	109,297
Officers' Salaries	0	60,000
Changes in		
Accounts Receivable	(517)	15,419
Prepaid Expenses	(300,499)	4,451
Other Assets	0	812
Accounts Payable and Accrued Expenses	(591,783)	68,870
Net Cash (Required) by Operating Activities	(1,189,044)	(37,778)
Cash Flows Provided (Required) By Investing Activities:		
Acquisitions of Property, Plant & Equipment	(140,258)	(92,789)
Proceeds From Disposals of Property, Plant and Equipment	0	102,327

Net Cash Provided (Required) by Investing Activities	(140,258)	9,538

See Accompanying Notes to Condensed Consolidated Financial Statements

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

(CONTINUED)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Cash Flows Provided (Required) by Financing Activities:		
Proceeds from Issuance of Common Stock	4,083,334	50,000
Repayment of Short-Term Loans	(100,000)	0
Proceeds of Loans from Related Parties	0	53,654
Repayment of Loans from Related Parties	0	(56,767)
Net Cash Provided by Financing Activities	3,983,334	46,887
Net Increase in Cash	2,654,032	18,647
Cash at Beginning of Period	894,457	193,669
Cash at End of Period	$ 3,548,489	$ 212,316
Supplemental Disclosures of Cash Flow Information		
Cash Payments for Interest	$ 4,719	$ 659
Cash Payments for Income Taxes	$ 0	$ 0
Non-Cash Financing Activities:		
Issuance of Common Stock:		
Operating Activities	$ 1,226,816	$ 109,297
Payment of Accounts Payable	38,311	62,500
Prepayment of Legal Fees	258,000	0
Repayment of Short-Term Loan	75,000	0

Total Non-Cash Financing Activities	$ 1,598,127	$ 171,797

See Accompanying Notes to Condensed Consolidated Financial Statements

TIDELANDS OIL & GAS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements for the three month periods ended March 31, 2004 and 2003 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-QSB and Regulation S-B. The financial information as of December 31, 2003 is derived from the registrant's Form 10-KSB for the year ended December 31, 2003. 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, 2003, included in the registrant's Form 10-KSB for the year ended December 31, 2003.

Operating results for the three-month period ended March 31, 2004 are not necessarily indicative of the results that may be expected for the remainder of the fiscal year ending December 31, 2004. The accompanying unaudited condensed consolidated financial statements include the accounts of the registrant and its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

TIDELANDS OIL & GAS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 2 - PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment at March 31, 2004 is as follows:

		Estimated Economic Life
Pre-Construction Costs- International Crossing to Mexico	$ 265,021	
Equipment and Leasehold Improvements	27,929	3-10 Years
Pipelines	431,560	15 Years
Processing Plant	166,410	15 Years
Total	890,920	
Less Accumulated Depreciation	157,750	
Total	$ 733,170	

NOTE 3 - LITIGATION

On January 6, 2003, the Company was served as a third party defendant in a lawsuit titled Northern Natural Gas Company vs. Betty Lou Sheerin vs. Tidelands Oil & Gas Corporation, ZG Gathering, Ltd. and Ken Lay, in the 150th Judicial District Court, Bexar County, Texas, Cause Number 2002-C1-16421. The lawsuit was initiated by Northern Natural Gas when it sued Betty Lou Sheerin for her failure to make payments on a note she executed payable to Northern in the original principal amount of $1,950,000. Northern's suit was filed on November 13, 2002. Sheerin answered Northern's lawsuit on January 6, 2003. Sheerin's answer generally denied Northern's claims and raised the affirmative defenses of fraudulent inducement by Northern, estoppel, waiver and the further claim that the note does not comport with the legal requirements of a negotiable instrument. Sheerin seeks a judicial ruling that Northern be denied any recovery on the note. Sheerin's answer included a counterclaim against Northern, ZG Gathering, and Ken Lay generally alleging, among other things, that Northern, ZG Gathering, Ltd. and Ken Lay, fraudulently induced her execution of the note. Northern has filed a general denial of Sheerin's counterclaims. Sheerin's answer included a third party cross claim against Tidelands. She alleges that Tidelands entered into an agreement to purchase the Zavala Gathering System from ZG Gathering , Ltd. and that, as a part of the agreement, Tidelands agreed to satisfy all of the obligations due and owing to Northern, thereby relieving Sheerin of all obligations she had to Northern on the promissory note in question. She alleges that Tidelands is liable to her for all of her actual damages, costs of the lawsuit and other unstated relief. Tidelands participated in a mediation on March 11, 2003 and the case settled at that time. Tidelands answered the Sheerin suit on March 26, 2003 and denied all of Sheerin's allegations. No discovery has been completed at this time. Based on initial investigations, however, Tidelands appears to have a number of potential defenses to Sheerin's claims and intends to aggressively defend the lawsuit.

NOTE 3 - LITIGATION (CONTINUED)

In September 2002, as a pre-closing deposit to the purchase of the ZG pipelines, the Company executed a $300,000 promissory note to Betty L. Sheerin, a partner of ZG Gathering, Ltd. In addition, the Company issued 1,000,000 shares of its restricted common stock to various partners of ZG Gathering, Ltd. The company believes that the aforementioned promissory note and shares of restricted common stock will be cancelled based upon the outcome of the litigation described above. Accordingly, the Company's financial statements reflect that position.

NOTE 4 - OTHER

During January and February 2004, the Company issued 2,722,223 shares of its restricted common stock for $4,083,335.

On January 8, 2004, the Company authorized the issuance of 200,000 shares of its common stock for 2004 legal fees valued at $344,000 under the Stock Grant and Option Plan.

On January 8, 2004, the Company issued 300,000 shares of its restricted common stock for services valued at $450,000 regarding the private placement of the Company's common stock.

On January 8, 2004, the Company authorized the issuance of 700,000 of its restricted common stock for consulting services valued at $1,050,000. These shares were issued during January and February 2004.

On January 8, 2004, the Company issued 52,800 shares of its common stock valued at $90,816 to a Company officer under the Stock Grant and Option Plan.

On January 8, 2004, the Company approved the issuance of 75,000 shares of its restricted common stock in payment of a $75,000 promissory note and $38,311 of accrued interest. These shares were issued February 3, 2004.

TIDELANDS OIL & GAS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 5 - SUBSEQUENT EVENTS

On April 7, 2004, the Company entered into a Letter of Intent with Impact International, LLC regarding (1) the exercise of the Impact Stock Purchase Warrant issued on April 16, 2003, and (2) the Company's purchase and the sale of Impact's interest in Reef Ventures, L.P., a Texas limited partnership for $6,580,222.02, adjusted for revenue and interest expense calculated from the construction project funding dates through date of closing. The warrant exercise and Reef sale terms are subject to the execution of definitive agreements which may include an amendment to the Stock Purchase Warrant and Registration Rights Agreements and the preparation of appropriate Reef sale agreements. In connection with the execution of the Letter of Intent, Impact exercised Five Hundred Thousand (500,000) common shares on a cashless basis. The Company issued the shares to Impact on April 12, 2004.

Stock Purchase Warrant

Impact International, LLC had given the Company notice of its intent to exercise all of the common stock purchase warrants under the Stock Purchase Warrant and Registration Rights Agreement between the Company and Impact International, LLC dated April 16, 2003 and reported on a Form 8-K Current Report filed May 8, 2003.

The Stock Purchase Warrant provides for the exercise of 6,830,000 common shares, or a 19% interest in the Company's issued and outstanding common stock at the time of exercise. The Warrant is subject to anti-dilution provisions and a pricing formula. The Warrant provides for both cash and cashless exercise methods. Since executing the Stock Purchase Warrant, the Company has issued additional common stock, entitling Impact to an increased number of warrants.

Pursuant to the terms of the Letter of Intent, and subject to the definitive terms and conditions of amended and future agreements, the Company would agree: (1) that the Impact Stock Purchase Warrant, as adjusted, covers Ten Million (10,000,000) Tidelands' common shares at an exercise price of $0.335 per share; (2) that the Company would register the Impact common shares on the appropriate form of registration statement with the Securities and Exchange Commission, and (3) that if the registration statement were not filed or declared effective within 90 days of April 7, 2004, that the Company would issue 500,000 common shares under the cashless exercise provisions of the amended Stock Purchase Warrant. For each 90 day period that the registration statement were not filed or declared effective, the Company would continue to issue 500,000 share blocks of common stock, until declared effective.

NOTE 5 - SUBSEQUENT EVENTS (CONTINUED)

Stock Purchase Warrant (Continued)

If the registration of the shares was accomplished by certain deadlines stated in the Letter of Intent, Impact would be obligated to exercise the balance of the Warrant for cash payable by Impact through the execution of a promissory note payable to Tidelands (the "Impact Note"). If the registration was not completed by the deadline, which would be either 12 or 15 months from April 7, 2004. Impact would not be obligated to exercise the balance of the Warrant for cash, rather Tidelands would be obligated to issue the remaining shares on a cashless basis. In either case, the Company would be required to continue to register the shares.

Purchase and Sale of Reef Ventures, LLC Interests

Impact would sell its 72% limited partnership interest and Coahuila Pipeline, LLC would sell its 1% general partnership interest in Reef to the Company for $6,580,222.02, less revenue received from Reef through March 9, 2004. An amount equal to interest would be added at closing, calculated from the date of net funding by Impact at a per annum rate of 12%. The purchase price would be further adjusted to take into account project expenses and revenues incurred or received after March 10, 2004.

Impact would finance the Tidelands' purchase price. The purchase price would be payable through a promissory note delivered by Tidelands at closing (the Tidelands Note") bearing interest at the prime rate of interest plus two (2%) percent. The note would call for quarterly interest payments during the first fifteen (15) months, and thereafter, principal and interest would be due quarterly amortized over twenty (20) years, but not to exceed an amount equal to One Hundred (100%) percent of Reef's net cash flow. The unpaid balance of the note would be due at the end of the fourth year. The note would be secured by a deed of trust covering the Gas Project and a guarantee of payment of the Tidelands note by Reef.

The Reef Deed of Trust would include a present assignment of Reef's rights to receive cash flow from the Gas Project which would be exercisable by Impact only upon default under the Tidelands Note, Reef guarantee, or Reef Deed of Trust.

At such time, if ever, as Impact has executed and delivered the Impact Note, Tidelands would exchange a cancellation of the Impact Note for an amended Tidelands Note, reducing the Principal sun owed under the Tidelands Note by the dollar amount evidenced by the Impact Note.

Item 2. Management's Discussion and Analysis or Plan of Operation

Business Overview

Tidelands Oil & Gas Corporation (the "Company"), formerly known as C2 Technologies, Inc., was incorporated under the laws of the State of Nevada on February 25, 1997. C2 Technologies, Inc. changed its name to Tidelands Oil & Gas Corporation on November 19, 1998. The Company has two wholly owned subsidiaries named Rio Bravo Energy, LLC, and Sonora Pipeline, LLC. The Company also owns a 25% limited partnership interest in Reef Ventures, L.P. as described below.

Rio Bravo Energy, LLC was formed on August 10, 1998 to operate the Chittim Gas Processing Plant which was purchased in 1999 and was processing natural gas primarily from Conoco Oil's Sacatosa Field. The Sacatosa Field was primarily an oilfield which produced high BTU casinghead gas from which processing would yield valuable hydrocarbon components such as propane, butane and natural gasolines. As the field depleted lower volumes of casinghead gas were being delivered by Conoco and other gas producers could not be contracted with for processing of additional replacement volumes of gas. Therefore, in October 2002, the plant was temporarily shut down due to the declining economics associated with low volume operation of the plant. Management plans to reopen the plant when adequate volumes of gas from third party producers makes plant operations economically attractive. The market for the products of plant operation could include our future propane/butane terminal and pipeline crossing into Mexico.

Sonora Pipeline, LLC was formed in January 1998 to operate the Sonora pipeline network which has the capability of delivering adequate volumes of natural gas for economic operation of the Chittim Gas Processing Plant. The pipeline network consists of approximately 80 miles of gas pipeline. The assets of this company were acquired in conjunction with the Chittim Gas Processing Plant acquisition and, when operational, would generate revenue from transportation fees to be charged to third party gas producers shipping natural gas to the gas plant owned by Rio Bravo Energy LLC.

On April 16, 2003, the Company sold a Seventy-five (75%) interest in our wholly owned subsidiaries, Reef International, L.L.C. and Reef Marketing, L.L.C. for $1,960,867. The L.L.C. interests were acquired by Impact International, L.L.C. (99% of the 75%) and Coahuila Pipeline, L.L.C. (1% of the 75%). Immediately after the transactions, Tidelands, Impact International and Coahuila transferred their respective interests in both Reef L.L.C.'s to Reef Ventures, L.P., a Texas limited partnership. Tidelands retained a 25% interest in Reef Ventures, L.P. Reef International, L.L.C. is the holder of United States, Texas permits for the construction, ownership, operation and maintenance of a twelve (12") pipeline and a six (6") liquids line (together with loading and unloading facilities) from Eagle Pass, Texas to Piedras Negras, Mexico. Reef Marketing, L.L.C. was organized for the marketing, gathering and transportation of natural gas and natural gas liquids from Eagle Pass, Texas to Piedras Negras, Mexico.

Impact International LLC and Coahuila Pipeline LLC fully funded the capital required for construction of the Reef Ventures, L.P. natural gas pipeline and related metering facilities. Full operation of these assets by the partnership began on November 1, 2003. Under the terms of the partnership agreement, no income or loss is allocable to Tidelands Oil & Gas Corporation's 25% limited partnership interest until such time as Impact and Coahuila have recovered 150% of their capital contributions. Additionally, Impact has agreed to finance the construction of the 6 inch propane/butane liquids pipeline subject to the negotiation and execution of definitive agreements. The liquids pipeline financial commitment is $2,723,226. Impact's total financial commitment to Tidelands regarding the sale of the Reef interests and pipeline construction is not to exceed $8,000,000.

As disclosed above in Note 5 - Subsequent Events of the Condensed Consolidated Financial Statements for the three months ended March 31, 2004, the Company has entered into a Letter of Intent to purchase all of the partnership interests held by Impact International LLC and Coahuila Pipeline LLC in the Reef Ventures, L.P. partnership. The Company would also restructure the Stock Purchase Warrant agreement as described above. Management expects these transactions to be completed on or before May 28, 2004. When completed, the transactions would result in the Company owning 98% of the Reef Ventures, L.P. business activities which include the currently operating 12 inch natural gas pipeline crossing and the future 6 inch LPG pipeline crossing between Eagle Pass, TX and Piedras Negras, Coahuila. Management believes this acquisition to be of strategic importance to the Company due to the potential for meaningful increases in volumes transported through the natural gas pipeline to additional markets in Coahuila and the cost and efficiency of substitution of pipeline transport for truck transport with respect to the existing LPG demand in the Coahuila market area. This acquisition will allow these business opportunities to be more fully realized by the Company as they occur.

The Company continues with feasibility studies for the development of an underground natural gas storage facility near Reynosa, Tamaulipas pursuant to the existing Memorandum of Understanging with PEMEX. Chronic underfunding of investment in midstream energy projects and increasing demand for natural gas have created a need for a storage facility which can cover receipt/delivery balancing needs and efficient interconnection with major gas pipelines. The Company's planned project includes an underground storage facility and interconnections between the existing and planned natural gas pipeline and processing infrastructure. Management believes the project has the potential to evolve into a market center (hub) for natural gas in Northern Mexico.

RESULTS OF OPERATIONS

REVENUES:

The Company reported revenues of $0 for the three months ended March 31, 2004 as compared with revenues of $5,265 for the three months ended March 31, 2003. The revenue reductions were due to the elimination of providing administrative services related to processing of proceeds from natural gas sales for a third party.

TOTAL COSTS AND EXPENSES:

Total costs and expenses increased from $312,548 for the three months ended March 31, 2003 to $1,538,208 for the three months ended March 31, 2004.

OPERATING EXPENSES:

(Gas Processing Plant) Operating expenses decreased from $5,425 for the three months ended March 31, 2003 to $0 for the three months ended March 31, 2004 due to the temporary closing of our Gas Processing Plant.

SELLING, GENERAL AND ADMINSTRATIVE EXPENSES:

Selling, general and administrative expense increased from $195,792 for the three months ended March 31, 2003 to $1,319,601 for the three months ended March 31, 2004. The increase of $1,123,809 was primarily due to increased consulting fees.

INCOME TAX:

The pretax loss increased from ($307,283) for the three months ended March 31, 2003 to ($1,534,341) for the three months ended March 31, 2004, an increased loss of $1,227,058.

LIQUIDITY AND CAPITAL RESOURCES:

Capital expenditures during the three months ended March 31, 2004 totaled $140,258 as compared with $92,789 for the three months ended March 31, 2003. The increase of $47,469 consists of 2004 pre-construction costs related to our proposed underground storage facility to be built for PEMEX, Mexico's state-owned petroleum company, as compared to 2003 pre-construction costs incurred for our international pipeline crossings to Mexico.

Total debt decreased from $1,138,905 at December 31, 2003 to $333,811 at March 31, 2004. Total debt as of March 31, 2004 and December 31, 2003 expressed as a percentage of the sum of total debt and shareholders' equity was 6.72% and 70.2% respectively.

Net loss for the three months ended March 31, 2004 was ($1,534,341) an increase of 499.33% from the net loss of ($307,283) for the three months ended March 31, 2003. Diluted net loss per common share increased 300% to ($0.03). The net loss per share calculation for the three months ended March 31, 2004 included an increase in actual and equivalent shares outstanding.

As detailed above, the Company has experienced a significant improvement with respect to its financial condition in the past three months. Improvement in the ability to fund ongoing operations has also occurred as a result of actions taken in the three months ended March 31, 2004. At December 31, 2003, the Company had received $1,000,000 of the $5,000,000 total funding commitment with respect to the private placement of 3,303,618 restricted common shares with Margaux Investment Management Group, S.A. On February 11, 2004, the Company received the final disbursement of funds which fulfilled the full $5,000,000 commitment plus an oversubscription of $83,335. Management anticipates that sufficient liquidity and capital resources currently exist to fund our operations with respect to recurring operating expenses and project pre-construction expenditures for planned projects in the upcoming fiscal year, however, additional borrowing and, or sale of additional shares of stock will be necessary to fund actual construction of newly planned projects such as the Burgos Gas Storage facility which is currently in the pre-construction phase of development. Management expects that financing for the construction costs of this project will be available in the form of a conventional project finance structure, - i.e.- a construction loan followed with term debt. Other projects currently in the feasibility study phase would likely utilize similar financing structures. Until the various projects are constructed and operating, the Company does not expect to receive significant revenues and must rely on existing cash resources and future borrowings and/or equity issuance. Management believes that market forces continue to emerge and justify the Company's efforts to provide midstream energy projects for the cross-border and Mexico natural gas marketplace and the Company's efforts will continue to address these opportunities in the future.

Management believes that the financial effect of the proposed buy-out of the Impact International LLC and Coahuila Pipeline LLC interests in Reef Ventures, L.P. will be affordable due to a cap limitation of required cash payments from the Company to the Sellers in the amount of existing project net cash flow during the term of the purchase money note. Similarly, the opportunity to offset the Stock Warrant Purchase note owed the Company against the purchase money note for the acquisition of the Impact/Coahuila partnership interests will limit the effective total purchase price for the natural gas pipeline crossing to an acceptable level.

FORWARD-LOOKING STATEMENTS:

We have included forward-looking statements in this report. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed to be forward looking statements. Without limiting the foregoing, words such as "may", "will", "expect", "believe", "anticipate", "estimate", "plan" or "continue" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors. Factors that might cause forward-looking statements to differ materially from actual results include, among other things, overall economic and business conditions, demand for the Company's products, competitive factors in the industries in which we compete or intend to compete, natural gas availability and cost and timing, impact and other uncertainties of our future acquisition plans.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK:

The Company does not issue or invest in financial instruments or their derivatives for trading or speculative purposes. The operations of the Company are conducted primarily in the United States, and, are not subject to material foreign currency exchange risk. Although the Company has outstanding debt and related interest expense, market risk of interest rate exposure in the United States is currently not material.

Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

Within the 90 days prior to the date of this Quarterly Report for the period ended March 31, 2004, we carried out an evaluation, under the supervision and with the participation of our management, including the Company's Chairman and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934 (the

"Exchange Act"), which disclosure controls and procedures are designed to insure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods specified by the SEC's rules and forms. Based upon that evaluation, the Chairman and the Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company's period SEC filings.

(b) Changes in Internal Control.

Subsequent to the date of such evaluation as described in subparagraph (a)above, there were no significant changes in our internal controls or other factors that could significantly affect these controls, including any corrective action with regard to significant deficiencies and material weaknesses.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

No material changes in previously reported legal proceedings.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the first quarter of 2004 the Company authorized, offered and sold the following securities pursuant to exemptions from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act").

During January and February 2004, we authorized the issuance of 2,722,223 common shares two foreign investors for $4,083,335.

On January 8, 2004, we authorized the issuance of 300,000 common shares to Carl Hessel for services valued at $450,000.

On January 8, 2004, we authorized the issuance of 300,000 common shares to Stanley Merdinger for services valued at $450,000.

On January 8, 2004, we authorized the issuance of 400,000 common shares to Milo Resources for consulting services valued at $600,000.

On January 8, 2004, we authorized the issuance of 75,000 common shares to Jerome Tannenbaum and Elizabeth Tannenbaum in payment of a $75,000 promissory note, including $38,311 of accrued interest.

We believe the shares issued above were issued in private transactions pursuant to Section 4(2) of the Securities Act of 1933, as amended, (the "Securities Act"). These shares are considered restricted securities and may not be publicly resold unless registered for resale with appropriate governmental agencies or unless exempt from any applicable registration requirements.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of the security holders, through the solicitation of proxies or otherwise, during the first quarter of the fiscal year covered by this report.

Item 5. Other Information

On January 28, 2004, Carl M. Hessel was appointed to our Board of Directors to fill the vacancy created when Royis Ward resigned.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

Exhibit No.	Exhibit Name
31.1	Chief Executive Officer-Section 302 Certification pursuant to Sarbane-Oxley Act.
31.2	Chief Financial Officer- Section 302 Certification pursuant to Sarbane-Oxley Act.
32.1	Chief Executive Officer-Section 906 Certification pursuant to Sarbane-Oxley Act.
32.2	Chief Financial Officer- Section 906 Certification pursuant to Sarbane-Oxley Act.

(b) Reports on Form 8-K. During the first quarter of 2004 we filed one Current Report on Form 8-K on February 11, 2004 reporting under Item 5, Other Events.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TIDELANDS OIL & GAS CORP.

/s/ Michael Ward

Dated: May 14, 2004

By: Michael Ward
Title: President, CEO

/s/ James Smith

Dated: May 14, 2004

By: James Smith
Title: CFO