TIDELANDS OIL & GAS CORP/WA
Form 10QSB
November 15, 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 September 30, 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 September 30, 2004, there were 59,028,0647 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

	September 30, 2004 (Unaudited)	December 31, 2003
Current Assets:		
Cash	$ 1,284,241	$ 894,457
Cash - Restricted	1,025,000	0
Accounts Receivable	39,890	228
Stock Subscriptions Receivable	2,000,000	0
Prepaid Expenses	144,891	22,209
Total Current Assets	4,494,022	916,894
Property Plant and Equipment, Net	7,004,041	604,192
Investment - Reef Ventures, L.P.	0	98,629
Other Assets:		
Goodwill	673,992	0
Deposits	4,108	3,800
Deferred Charges	245,600	0
Total Other Assets	923,700	3,800
Total Assets	$ 12,421,763	$ 1,623,515

See Accompanying Notes to Condensed Consolidated Financial Statements

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2004 (Unaudited)	December 31, 2003
Current Liabilities:		
Accounts Payable and Accrued Expenses	$ 388,563	$ 813,905
Current Maturities of Long-Term Debt	150,000	325,000
Total Current Liabilities	538,563	1,138,905
Long-Term Debt	6,523,773	0
Total Liabilities	7,062,336	1,138,905
Commitments and Contingencies	--	--
Stockholders' Equity:		
Common Stock, $.001 par value per share, 100,000,000 shares authorized; 59,028,647 shares issued and outstanding September 30, 2004, 44,825,302 shares Issued and outstanding December 31, 2003	59,029	44,826
Additional Paid-in Capital	21,557,478	11,072,987
Subscriptions Receivable	(550,000)	(18,000)
Accumulated (Deficit)	(15,707,080)	(10,615,203)
Total Stockholders' Equity	5,359,427	484,610
Total Liabilities and Stockholders' Equity	$ 12,421,763	$ 1,623,515

See Accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003
Revenues:		
Gas Sales	$ 815,747	$ 0
Pipeline Fees	9,101	0
Management Fees	0	103,830
Total Revenues	824,848	103,830
Expenses:		
Purchases	801,698	0
Operating Expenses	15,800	11,791
Depreciation	88,611	11,153
Interest	100,981	9,675
Officers & Directors Salaries & Fees	177,625	69,000
General and Administrative	953,293	284,780
Total Expenses	2,138,008	386,399
(Loss) From Operations	(1,313,160)	(282,569)
Loss From Asset Abandonment	0	(850)
Interest Income	5,667	0
Net Income (Loss)	$ (1,307,493)	$ (283,419)
Net Income (Loss) Per Common Share:		
Basic and Diluted	$ (0.02)	$ (0.01)
Weighted Average Number of Common Shares Outstanding, Basic	54,778,647	41,390,507

See Accompanying Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Revenues:		
Gas Sales	$ 1,323,459	$ 0
Pipeline Fees	9,101	0
Management Fees	0	123,922
Total Revenues	1,332,560	123,922
Expenses:		
Purchases	1,299,518	0
Pipeline Operating Expenses	18,416	26,484
Depreciation	136,529	32,473
Interest	149,418	43,316
Officers & Directors Salaries & Fees	513,983	219,000
General and Administrative	4,323,313	660,447
Total Expenses	6,441,177	981,720
(Loss) From Operations	(5,108,617)	(857,798)
Extraordinary Item - Gain on Partial Sale Of Subsidiary	0	1,533,731
Loss From Asset Abandonment	0	(850)
Interest Income	16,740	0
Net Income (Loss)	$ (5,091,877)	$ 675,083
Net Income (Loss) Per Common Share:		
Basic and Diluted		
(Loss) From Operations	$ (0.10)	$ (0.02)
Gain - Extraordinary Item	0.00	0.04

Total	$ (0.10)	$ 0.02
Weighted Average Number of Common Shares Outstanding, Basic	51,926,974	38,040,218

See Accompanying Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Cash Flows Provided (Required) By Operating Activities:		
Net Income (Loss)	$ (5,091,877)	$ 675,083
Adjustments to Reconcile Net (Loss) to Net Cash Provided (Required) By Operating Activities:		
Depreciation	136,529	32,473
Write Off of Subscription Receivable	18,000	0
Issuance of Common Stock for Services Provided	3,747,066	317,814
Officers' Salaries Accrual	0	100,000
Changes in:		
Accounts Receivable	(39,662)	15,419
Prepaid Expenses	(116,682)	15,124
Deposits	(308)	(1,805)
Deferred Charges	(245,600)	0
Accounts Payable and Accrued Expenses	(387,031)	(552,191)
Net Cash Provided (Required) by Operating Activities	(1,979,565)	601,917
Cash Flows Provided (Required) By Investing Activities:		
Increase (Decrease) in Investments	98,629	(98,629)

Acquisitions of Property, Plant & Equipment	(692,597)	(98,360)
Proceeds From Disposals of Property, Plant and Equipment	0	697,285
Net Cash Provided (Required) by Investing Activities	(593,968)	500,296

See Accompanying Notes to Condensed Consolidated Financial Statements

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

(CONTINUED)

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Cash Flows Provided (Required) by Financing Activities:		
Proceeds from Issuance of Common Stock Net of Subscriptions Receivable	4,088,317	50,000
Repayment of Short-Term Loans	(100,000)	(302,924)
Proceeds of Loans from Related Parties	0	19,300
Repayment of Loans Fees and Accrued Salaries Due Related Parties	0	(848,597)
Net Cash Provided (Required) by Financing Activities	3,988,317	(1,082,221)
Net Increase in Cash	1,414,784	19,992
Cash at Beginning of Period	894,457	193,669
Cash at End of Period	$ 2,309,241	$ 213,661
Supplemental Disclosures of Cash Flow Information:		
Cash Payments for Interest	$ 22,011	$ 33,143
Cash Payments for Income Taxes	$ 0	$ 0

Non-Cash Financing Activities:		
Issuance of Common Stock:		
Operating Activities	$ 3,747,066	$ 317,814
Payment of Accounts Payable	38,311	62,500
Repayment of Loans	75,000	198,767
Prepayment of Legal Fees	86,000	18,750
Repayment of Loans and Accrued Salaries From Related Parties	0	866,157
Acquisition of Property, Plant, Equipment, and Goodwill For Note Payable	6,523,773	0
Total Non-Cash Financing Activities	$ 10,470,150	$ 1,493,988

See Accompanying Notes to Condensed Consolidated Financial Statements

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TIDELANDS OIL & GAS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements for the nine month periods ended September 30, 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 nine-month period ended September 30, 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, its wholly-owned subsidiaries, Rio Bravo Energy, LLC, Sonora Pipeline, LLC, Arrecefe Management, LLC, Marea Associates, L.P., Reef Ventures, L.P., Reef International, LLC, Reef Marketing, LLC, and Terranova Energia S. de R. L. de C. V. 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
SEPTEMBER 30, 2004

NOTE 2 - RESTRICTED CASH

Restricted cash consists of a certificate of deposit to secure a letter of credit issued to a vendor. The letter of credit terminated on October 4, 2004 which cancelled the cash restriction.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

Summaries of property, plant and equipment at September 30, 2004 and December 31, 2003 are as follows:

	September 30, 2004	December 31, 2003	Estimated Economic Life
Pre-Construction Costs- International Crossing to Mexico	$ 20,600	$ 133,308	
Pre-Construction Costs - Mexican Storage Facility and Related Pipelines	669,225	0	
Equipment and Leasehold Improvements	38,802	19,449	3-10 Years
Pipelines - Domestic	431,560	431,560	15 years
Pipeline - Eagle Pass, Tx to Piedras Negras, Mexico	6,113,255	0	20 Years
Processing Plant	186,410	166,410	15 Years
Total	$ 7,459,852	750,727	
Less Accumulated Depreciation	455,811	146,535	

Total	$ 7,004,041	$ 604,192

Depreciation expense for the nine months ended September 30, 2004 and September 30, 2003 amounted to $136,529 and $32,473.

NOTE 4 - LONG-TERM DEBT

Maturities of long-term debt are as follows, provided cash flows are sufficient. According to provisions in note, any deficiencies will be paid at maturity of note as described in footnote 6.

Period Ending September 30,	
2005	$ 27,182
2006	326,188
2007	326,188
2008	5,844,215
	$ 6,523,773

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TIDELANDS OIL & GAS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 5 - 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 others, 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 others generally alleging, among other things, that Northern, ZG Gathering, Ltd. and others, 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. The case was not 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.

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 6 - ACQUISITION

On May 25, 2004, the Company entered into a Purchase and Sale Agreement for Reef Ventures, L.P. by and between Impact International, LLC ("Impact") and Coahuila Pipeline, LLC. ("Coahuila"), (jointly "Seller") and Tidelands Oil & Gas Corporation ("Tidelands") and Arrecefe Management, LLC ("Arrecefe"), (jointly "Buyer"). Impact is considered an affiliate of Tidelands because it possessed warrants to acquire a 19% interest in Tidelands common stock. The closing documents were executed and placed into trust pending receipt of proof of insurance. Tideland's received an insurance commitment regarding the purchased assets that was accepted by Impact on June 18, 2004, the effective closing date.

Purchase and Sale Agreement - Background

Reef Ventures, L.P. was formed in Texas on April 16, 2003. Coahuila owned one percent (1%) of Reef Ventures, L.P. Impact was a limited partner of Reef Ventures and owned seventy-two percent (72%) of Reef Ventures. L.P. Tidelands formed Arrecefe Management, L.L.C., a Texas limited liability company, to act as the general partner for Reef Ventures, L.P. Tidelands had already owned twenty-five percent (25%) of Reef Ventures, L.P.

Summary of Purchase and Sale Agreement

The Company and Arrecefe purchased Impact's and Coahuila's units of interest in Reef Ventures, L.P., respectively. Impact financed the sale of the Reef interests for $6,523,773 payable as follows:

(a) Tidelands executed a Promissory Note to Impact for $6,523,773 (the "Tidelands Note"). The Tidelands Note bears interest at the prime rate of interest plus two (2%) percent. The note would call for quarterly interest payments 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.

(b) The Tideland's note is secured by (i) a deed of trust (the "Deed of Trust") from the Partnership to Impact, covering the pipeline and related facilities, easements, rights-of-way and the Gas Contracts which comprise the project, being that 12-inch pipeline Project for transporting natural gas from Eagle Pass Texas to Piedras Negras, Mexico, defined in the Partnership Agreement. The

NOTE 6 - ACQUISITION (CONTINUED

Summary of Purchase and Sale Agreement (Continued)

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. (ii) a guaranty of payment and performance from the Partnership (the "Partnership Guaranty"), and (iii) a pledge agreement whereby the Partnership pledges to Impact its 98% membership interest in Reef.

Summary of Amendment to Warrant and Registration Rights Agreements

The Stock Purchase Warrant Agreement dated April 16, 2003 was amended. The amended Agreement states that the total number of shares which Impact is entitled to receive under the warrant is Ten Million (10,000,000) shares of Tideland's common stock, plus such additional shares of common stock which may be issued upon the occurrence of an untimely registration event, less the 500,000 shares issued to Impact on April 13, 2004. The exercise price is $0.335 per share. The expiration date of the warrant is extended to April 16, 2006.

The Company has agreed to use its best efforts to register the shares under the warrant with the Securities and Exchange Commission so that Impact will be permitted to publicly resell the common shares. Tidelands agreed to use its best efforts to keep the registration statement effective as long as it is necessary for Impact to sell the shares.

If the registration statement is declared effective (i) by April 7, 2005, if the registration is on Form S-3, or (ii) July 7, 2005, if the registration statement is on Form SB-2 or any other registration form, the registration statement will be deemed timely (a "Timely Registration"). In the event of a Timely Registration, Impact will exercise the warrant for all of the remaining shares under the warrant on a cash basis payable by Impact through the execution of a promissory note payable to Tidelands (the "Impact Note"), as of the effective date of the registration statement. In the event that the Company does not accomplish a Timely Registration, then Impact may exercise the warrant at anytime after the date which is the last date for a Timely Registration, at its option on a cash basis or pursuant to Section 1.2 of the warrant agreement on a net exercise cashless basis for all the remaining shares under the warrant. If Impact elects to exercise the warrants on a net exercise cashless basis, we will increase the number of shares available for issuance under the warrant, regardless of whether issued for cash or on a net exercise basis, so that the total number of shares issued would total 10,000,000 shares.

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TIDELANDS OIL & GAS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 6 - ACQUISITION (CONTINUED

If the registration statement is not filed or declared effective on or before July 14, 2004, the Company will be obligated to 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 was not filed or declared effective, the Company would continue to issue 500,000 share blocks of common stock, until declared effective. Accordingly, the Company issued 500,000 restricted common shares during July since the registration statement was not filed by July 14, 2004.

The unaudited pro-forma condensed consolidated results of operations of the Company have been prepared as if the acquisition of the seventy-three percent (73%) of Reef Ventures, L.P. had occurred January 1, 2004:

Tidelands Oil & Gas Corporation
Condensed Consolidated Statement of Operations
Nine Months Ended September 30, 2004
"Proforma"
(Unaudited)

Revenues	$ 3,975,062
Net (Loss)	$ (5,152,407)
Net (Loss) Per Common Share - Basic	$ (0.10)
Weighted Average Shares Outstanding - Basic	51,926,974
Net (Loss) Per Common Shares - Diluted	$ (0.08)
Weighted Average Shares Outstanding - Diluted	63,310,378

NOTE 7 - COMMON STOCK TRANSACTIONS

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.

NOTE 7 - COMMON STOCK TRANSACTIONS (CONTINUED)

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.

During the quarter, the Company issued 3,322 shares of its restricted common stock for $4,983.

On April 12, 2004, the Company issued 500,000 shares of its restricted common stock valued at $497,000 to Impact International, Inc. pursuant to the terms of the purchase of Reef Venture, L.P. described above.

On April 15, 2004, the Company issued 700,000 shares of its restricted common stock for consulting services valued at $728,000.

On April 15, 2004, the Company issued 450,000 shares of its restricted common stock for consulting services valued at $468,000.

On July 2, 2004, the Company issued 500,000 shares of its restricted common stock valued at $250,625 to Impact International, Inc. pursuant to the terms of purchase of Reef Ventures, L.P. described above.

On August 1, 2004, the Company issued 1,000,000 shares of its restricted common stock valued at $383,750 pursuant to a one-year contract to provide consulting services. In addition, the Company issued warrants to purchase 500,000 shares of common stock at a price of $1.45 per share. These warrants expire August 10, 2006.

On September 14, 2004, the Company issued 4,000,000 shares of its restricted common stock for $2,000,000 which was received during October, 2004. In addition, the Company issued warrants to purchase 1,000,000 shares of common stock at a price of fifty-cents ($0.50) per share. These warrants expire August 14, 2006.

On September 14, 2004, the Company issued 500,000 shares of its restricted common stock valued at $106,875 pursuant to an employment contract with an officer of the Company.

NOTE 7- COMMON STOCK TRANSACTIONS (CONTINUED)

On September 14, 2004, three current officers and directors, a prior officer/director and an employee of the Company each exercised a warrant to acquire 500,000 shares of restricted common stock for $110,000. The parties also executed a one-year promissory note bearing 5% per annum interest in favor of the Company and a security agreement against the newly issued stock until full payment has been remitted.

NOTE 8 - COMMITMENT FOR SUITE LICENSE AGREEMENT

On June 4, 2004, the Company entered into a Suite License Agreement with the San Antonio Spurs, L.C.C. commencing July 1, 2004 for a period of five years. The annual license fee for the first year is $159,000 and is subject to a 6% per annum price escalation thereafter. The annual fee is payable in installments as indicated in the agreement.

The future annual license fee commitments are as follows:

2005	$ 161,385
2006	171,068
2007	181,332
2008	192,212
2009	101,872
	$ 807,869

NOTE 9 - RELATED PARTY TRANSACTION

The Company executed an agreement in January 2004 with a related party to provide charter air transportation for its employees, customers and contractors to job sites and other business related destinations. A prepayment of $300,000 was made to secure a block of six hundred hours of airtime based on standard industry rates, and as at September 30, 2004, there remains unused airtime in the amount of $275,600.

NOTE 10 - SUBSEQUENT EVENTS

On October 1, 2004, the Company formed Sonterra Energy Corporation, ("Sonterra"), a Texas Corporation. Sonterra immediately issued 500 shares each to the Company and James Blackwell, PE. Sonterra was organized for the purpose of acquiring the assets of Oneok Propane Distribution Company, a division of Oneok Propane Company. In connection with the purchase of the Oneok assets, James Blackwell sold his 500 Sonterra shares to Tidelands in exchange for 574,712 Tidelands' shares; thereby causing Sonterra to become a wholly owned subsidiary of Tidelands.

NOTE 10 - SUBSEQUENT EVENTS

On November 1, 2004, Sonterra entered into an Asset Purchase and Sale Agreement with Oneok Propane Distribution Company to purchase its assets for two million dollars, ($2,000,000). The assets consist of propane distribution systems; including gas mains, yard lines, meters and storage tanks serving various residential subdivisions in the Austin, Texas area. The purchase price was funded by Tidelands on behalf of Sonterra from proceeds of the previous sale of 4,000,000 shares of its restricted common stock received during October 2004.

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 five wholly owned subsidiaries, Rio Bravo Energy LLC, Sonora Pipeline LLC, Arrecefe Management LLC, Marea Associates, L.P., and Terranova Energia, S.de R.L. de C.V. The Company also owns a 97% limited partnership interest in Reef Ventures, L.P. Arrecefe Management LLC owns a 1% general partner interest in Reef Ventures, L.P. Reef Ventures, L.P. owns 100% of the member interest in Reef International LLC and Reef Marketing LLC.

The Company's products and services are primarily focused on development and operation of transportation, processing, distribution and storage projects for natural gas and liquids in the northeastern states of Mexico (Chihuahua, Coahuila, Nuevo Leon and Tamaulipas) and the state of Texas in the United States of America.

The Company derived its revenue from sales of natural gas to the local distribution company in Piedras Negras, Coahuila through the pipeline owned by Reef Ventures, L.P. during the months of July and August 2004. The revenue source from these operations for the month of September 2004 was converted to a transportation fee based upon volumes metered. It is anticipated that the conversion of the revenue source to a transporation fee basis will enable the Company to realize a doubling of net revenues based upon current volumes committed for delivery to the customer in Piedras Negras, Coahuila. Management is evaluating an expansion of the pipeline in Coahuila to serve new markets along the state highway No. 57 corridor to Monclova, Coahuila including the brewery and bottling operation planned for that area. The volume increase from this expanded pipeline network is estimated to be 4 to 7 times the current average throughput to the local distribution company in Piedras Negras, Coahuila. The planned natural gas liquid line between Eagle Pass, Texas and Piedras Negras, Coahuila is being re-evaluated in light of new supply sources emerging in Nuevo Laredo and Reynosa, Tamaulipas. A decision to proceed, modify or abandon the LPG project at this location is under evaluation. The existing natural gas and natural gas liquid projects were acquired in connection with the buyout of the Impact general and limited partnership interests in Reef Ventures, L.P. which is described in further detail in Footnote 6 to the Condensed Consolidated Financial Statements above.

In December 2003, the Company entered into a Memorandum of Understanding with

PEMEX to design, build and operate an underground natural gas storage facility in the vicinity of Reynosa, Tamaulipas, Mexico, in the Burgos Basin area and eventually at other regions in Mexico. The MOU provides for exclusivity in the development of the projects and the related transportation and interconnecting pipelines to and from the storage facilities.

The Company has completed its initial study of the Burgos facility and expects to complete final contract negotiations with PEMEX and third party vendors for the construction and operation of the facility shortly. A system of two interconnecting pipelines is also proposed to enhance the overall pipeline grid and the efficiency of operation of the storage facility. Permit applications will be filed for all these projects with the Mexican Energy Regulatory Commission in the fourth quarter of 2004. The capital budget for these projects exceeds $300 million USD and is expected to be funded through additional equity and debt issuances by the Company. Marea Associates, L.P. was formed during the fiscal quarter ended June 30, 2004 to own the majority interest in Terranova Energia, S. de R.L. de C.V. a Mexican company which will enter into all contracts for business dealings in Mexico on behalf of the Company. Rio Bravo Energy LLC, an existing wholly owned subsidiary owns the general partner interest in Marea Associates, L.P. and a minority interest in Terranova Energia, S. de R.L. de C.V.

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. Subsequent to September 30, 2004, the Company closed a $2,000,000 Regulation S equity financing with ACH Securities, S.A. The proceeds of this financing were used to fund the acquisition of residential propane distribution systems in western Travis County, Texas via the Company's new wholly owned corporate subsidiary, Sonterra Energy Corporation as of November 1, 2004. Management is evaluating the re-opening of the Chittim gas plant in order to provide lower cost feedstock fuel for sale through Sonterra Energy Corporation operations. Management is also evaluating two different supply sources for the reopening of the Chittim gas plant. As noted above, Rio Bravo Energy LLC also owns a general partner interest in Marea Associates, L.P. and the minority interest in Terranova Energia, S. de R.L. de C.V.

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.

RESULTS OF OPERATIONS

REVENUES: The Company reported revenues of $1,332,560 for the nine months ended September 30, 2004 as compared with revenues from continuing operations of $123,922 for the nine months ended September 30, 2003. The revenue increase resulted from the acquisition of a 98% interest in Reef Ventures, L.P. which owns and operates a natural gas pipeline serving the Piedras Negras, Coahuila market.

TOTAL COSTS AND EXPENSES: Total costs and expenses from continuing operations increased from $981,720 for the nine months ended September 30, 2003 to $6,441,177 for the nine months ended September 30, 2004.

COST OF SALES: The cost of sales (purchases) from continuing operations increased from -0- for the nine months ended September 30, 2003 to $1,299,518 for the nine months ended September 30, 2004. The increase was due to the purchase cost of natural gas resold through the natural gas pipeline owned by Reef Ventures, L.P.

OPERATING EXPENSES: Other operating expenses from continuing operations increased from $981,720 for the nine months ended September 30, 2003 to $5,141,659 for the nine months ended September 30, 2004 which is total increase of $4,159,939. Depreciation increased by $104,056 due to the acquisition of the natural gas pipeline owned by Reef Ventures, L.P. Interest expense increased by $106,102 due to the debt incurred to acquire the natural gas pipeline owned by Reef Ventures, L.P. Pipeline operating expenses decreased by $8,068 due to different operating requirements of the assets owned during the respective nine month periods. Officers and Directors Salaries & Fees increased by $294,983 for the nine months ended September 30, 2004 versus the nine months ended September 30, 2003 due to hiring of additional officers and directors. The non-cash component of this increase was $197,691 due to issuance of common stock to officers and directors. General & Administrative expenses increased substantially as detailed below.

SELLING GENERAL AND ADMINISTRATIVE: General & Administrative Expenses increased by $3,662,866 for the nine months ended September 30, 2004 versus the nine months ended September 30, 2003 due to an increase in the issuance of common stock for consulting fees, legal fees, and financing fees by $3,231,561 which are non-cash expenses accounting for all but $431,305 of the increase in general and administrative expenses. The remaining increase in G & A costs was primarily from cash paid for travel costs, insurance premiums, entertainment, accounting fees and legal fees.

NET LOSS FROM OPERATIONS:Net loss of ($857,798) for the nine months ended September 30, 2003 increased to ($5,108,617) for the nine months ended September 30, 2004, an increase in the amount of loss of $4,250,819. The non-cash component of the increase in loss was $3,747,066.

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LIQUIDITY AND CAPITAL RESOURCES: Capital expenditures during the nine months ended September 30, 2004 totaled $6,829,125 as compared with $95,360 for the nine months ended September 30, 2003. The increase of $6,733,765 was due to acquisition of the Reef Ventures, L.P. natural gas pipeline ($6,113,255), increased equipment and leasehold cost of $19,946, higher pre-construction costs regarding potential international pipeline crossings and storage facilities in Mexico ($580,564), and additional equipment for our gas processing plant

($20,000).

Total debt increased from $1,138,905 at December 31, 2003 to $7,062,336 at September 30, 2004. The increase in total debt is due to the acquisition indebtedness created in the acquisition of the Reef Ventures, L.P. partnership interests from Coahuila Pipeline LLC and Impact International LLC as described in Note 6 to the Condensed Consolidated Financial Statements for the period ended September 30, 2004. Total debt as of September 30, 2004 and December 31, 2003 expressed as a percentage of the sum of total debt and shareholders' equity was 56.85% and 70.15% respectively.

Net loss for the nine months ended September 30, 2004 was ($5,091,877) a decrease of 854% from the net income of $675,083 for the nine months ended September 30, 2003. Diluted net loss per common share increased 500% to ($0.10). The net loss per share calculation for the nine months ended September 30, 2004 included an increase in actual and equivalent shares outstanding.

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 September 30, 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.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On January 6, 2003, we were 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 not 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 and Sheerin agreed to delay the Tideland's answer date in order to allow time for mediation of the case. Tideland's participated in a mediation on March 11, 2003. The case was not settled at that time. Tideland's answered the Sheerin suit on March 26, 2003. Tideland's answer denies all of Sheerin's allegations. No discovery has been completed at this time. Based on initial investigation, however, Tidelands appears to have a number of potential defenses to Sheerin's claims. Tideland's intends to aggressively defend the lawsuit. At this early stage in the litigation, and in light of our continuing investigation of the facts and the issues in the case, we cannot give a more definitive evaluation of the extent Tideland's liability exposure.

On May 24 and June 16, 2004 respectively, Betty Lou Sheerin filed her first and second amended original answer, affirmative defenses, special exceptions and second amended original counterclaim, second amended original third party cross-actions and requests for disclosure. In these amended pleadings, she sued Michael Ward, Royis Ward, James B. Smith, Carl Hessell and Ahmed Karim in their individual capacities. Her claims against these individuals are for fraud, breach of the Uniform Commercial Code, breach of duty of good faith and fair dealing and conversion. These claims are being vigorously defended.

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 common stock to various partners of ZG Gathering, Ltd. The company believes that the promissory note and shares of common stock will be cancelled based upon the outcome of the litigation described above. Accordingly, our financial statements reflect this belief.

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

During the third 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").

On July 2, 2004, we issued 500,000 shares of common stock to Impact International, LLC. valued at $250,625 in a cashless exercise of their common stock warrants.

On August 1, 2004, we issued 1,000,000 shares of common stock to L.L. Capital Group, LLC pursuant to a Consulting Services Agreement. The transaction was valued at $383,750.

On September 14, 2004, the following individuals exercised common stock options:

(1) Michael Ward, the Company's President and Director, exercised his common stock option to purchase 500,000 common shares for $110,000 payable on a promissory note bearing interest at the rate of 5% payable in full on, or before September 14, 2005. The shares are subject to a security agreement.

(2) Ahmed Karim, the Company's Vice President and Director, exercised his common stock option to purchase 500,000 common shares for $110,000 payable on a promissory note bearing interest at the rate of 5% payable in full on, or before September 14, 2005. The shares are subject to a security agreement.

(3) James Smith, the Company's Chief Financial Officer, exercised his common stock option to purchase 500,000 common shares for $110,000 payable on a promissory note bearing interest at the rate of 5% payable in full on, or before September 14, 2005. The shares are subject to a security agreement.

(4) Samuel Simon exercised his common stock option to purchase 500,000 common shares for $110,000 payable on a promissory note bearing interest at the rate of 5% payable in full on, or before September 14, 2005. The shares are subject to a security agreement.

On September 14, 2004, we issued 500,000 shares of common stock to Michael Ward as a stock grant under his employment agreement. The shares were valued at $106,875.

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

None.

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 third quarter of 2004 we filed two Current Reports on Form 8-K: August 13, 2004 reporting under Item 7, September 20, 2004 reporting under Item 3.02.

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.

Dated: November 15, 2004

/s/ Michael Ward

By: Michael Ward
Title: President, CEO

Dated: November 15, 2004

/s/ James B. Smith

By: James B. Smith
Title: CFO