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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 | \$ |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current Liabilities: | | | | | |
| Current Maturities of Note Payable | \$ 225,000 | \$ -- | \$ 225,000 | \$ 112,500 | \$ |
| 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