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TIDELANDS OIL & GAS CORP/WA
Form 424B3
June 21, 2005

Rule 424(b)(3)
Registration Statement No.333-121398

PROSPECTUS

39,293,657
Common Shares

TIDELANDS OIL & GAS CORPORATION
1862 W. Bitters Rd., San Antonio, TX 78248

The Resale of Shares of Common Stock

The selling price of the shares will be determined by market factors at the time of their resale.

This prospectus relates to the resale by the selling shareholders of up to shares of common stock. The selling shareholders may sell the stock from time to time in the over-the-counter market at the prevailing market price or in negotiated transactions. With regard to the offered shares,

- o up to 7,500,000 shares are issuable upon exercise of outstanding warrants, at exercise price of \$0.335 per share to Impact International, LLC;
- o up to 1,699,980 shares issued and outstanding for sale by Impact International, LLC;
- o up to 10,403,618 shares issued and outstanding for sale by selling security holders;
- o up to 11,111,111 shares are issuable upon conversion of outstanding 7% Convertible Debentures, which are convertible pursuant to a formula, provided that the conversion price shall not be less than \$0.45, nor more than \$0.76 per share;
- o up to 6,578,948 shares are issuable upon exercise of outstanding warrants at exercise prices ranging between \$0.80 and \$0.87 per share;
- o up to 1,000,000 shares are issuable upon the exercise of outstanding warrants at an exercise price of \$0.50 per share; and
- o up to 1,000,000 shares are issuable upon the exercise of outstanding warrants at an exercise price of \$2.50 per share.

This offering is not being underwritten. The common shares offered under this prospectus may be sold by the selling shareholders on the public market, in negotiated transactions with a broker-dealer or market maker as a principal or agent, or in privately negotiated transactions not involving a broker or dealer.

We will receive no proceeds from the sale of the shares by the selling shareholders. However, we may receive up to \$16,005,912 Dollars of proceeds from the shares issuable upon the exercise of all the warrants, conversion of the Debentures and payment of promissory notes secured by certain the stock of certain selling shareholders. The proceeds from the exercise of the Impact warrants must be used to offset debt we owe to Impact. The proceeds from the conversion of the Debentures would be applied to the outstanding balances due on the Debenture debt.

There is no assurance that all of the warrants will be exercised or the Debentures converted at any price.

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Our common stock is quoted on the over-the-counter Electronic Bulletin Board under the symbol TIDE. On June 14, 2005, the average of the bid and asked prices of the common stock on the Bulletin Board was \$1.36 per share.

Investing in the common stock involves a high degree of risk. You should not invest in the common stock unless you can afford to lose your entire investment. See "Risk Factors" beginning on page 5 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Please read this prospectus carefully. It describes our company, finances, products and services. Federal and state securities laws require us to include in this prospectus all the important information that you will need to make an investment decision.

You should rely only on the information contained or incorporated by reference in this prospectus to make your investment decision. We have not authorized anyone to provide you with different information. The selling shareholders are not offering these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front page of this prospectus.

Brokers or dealers effecting transactions in the Shares should confirm the registration of the Shares under the securities laws of the states in which such transactions occur or the existence of an exemption from such registration, or should cause such registration to occur in connection with any offer or sale of the Shares.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Date of this Prospectus is June 15, 2005

The following table of contents has been designed to help you find important information contained in this prospectus. We encourage you to read the entire prospectus.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In this prospectus we make a number of statements, referred to as "forward-looking statements", which are intended to convey our expectations or predictions regarding the occurrence of possible future events or the existence of trends and factors that may impact our future plans and operating results. These forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to us and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe to be appropriate in the circumstances. You can generally identify forward-looking statements through words and phrases such as "seek", "anticipate", "believe", "estimate", "expect",

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"intend", "plan", "budget", "project", "may be", "may continue", "may likely result", and similar expressions. When reading any forward looking statement you should remain mindful that all forward-looking statements are inherently uncertain as they are based on current expectations and assumptions concerning future events or future performance of our company, and that actual results or developments may vary substantially from those expected as expressed in or implied by that statement for a number of reasons or factors, including those relating to:

- o whether or not markets for our products develop and, if they do develop, the pace at which they develop;
- o our ability to attract the qualified personnel to implement our growth strategies,
- o our ability to develop sales, marketing and distribution capabilities;
- o the accuracy of our estimates and projections;
- o our ability to fund our short-term and long-term financing needs;
- o changes in our business plan and corporate strategies; and
- o other risks and uncertainties discussed in greater detail in the sections of this prospectus, including those captioned "Risk Factors" and "Management's Discussion And Analysis Of Financial Condition And Results Of Operations".
- o Each forward-looking statement should be read in context with, and with an understanding of, the various other disclosures concerning our company and our business made elsewhere in this prospectus as well as other public reports filed with the United States Securities and Exchange Commission (the "SEC"). You should not place undue reliance on any forward-looking statement as a prediction of actual results or developments. We are not obligated to update or revise any forward-looking statement contained in this prospectus to reflect new events or circumstances unless and to the extent required by applicable law.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Securities and Exchange Commission (SEC) allows us to "incorporate by reference" information into this prospectus, which means important information may be disclosed to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus, except for any information superseded by information contained directly in this prospectus. This prospectus incorporates by reference the documents set forth below that Tideland Oil & Gas Corporation has previously filed with the SEC. These documents contain important information about the issuer, its subsidiaries and their finances.

We incorporate by reference the following documents Tideland Oil & Gas Corporation has filed with the SEC pursuant to the Exchange Act:

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- o our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004 filed on April 15, 2005;
- o our Current Reports on Forms 8-K filed on January 7, January 11, March 7, May 13, 2005;
- o our Quarterly Report on Form 10-QSB for the quarter ended March 31, 2005 filed on May 13, 2005; and
- o our Current Report on Form 8-K filed on June 16, 2005.

We are also incorporating by reference all other documents that we file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act on, or after the date of this prospectus and prior to the termination of the offering to which this prospectus relates. Those documents will become a part of this prospectus from the date that the documents are filed with the SEC. We are not, however, incorporating by reference any documents or portions thereof that are not deemed "filed" with the SEC, including any such information furnished pursuant to Form 8 -K.

Upon receipt of written or oral request to: Tidelands Oil & Gas Corporation, 1862 West Bitters Rd., San Antonio, TX 78248, Tel: (210) 764-8642, Fax: 210-764-2808.

We will provide to each person to whom a prospectus is delivered, at no cost to the requester, a copy of any or all of the information that has been incorporated by reference in this prospectus but not delivered with this prospectus.

Statements contained in this document as to the contents of any contract or other document referred to in such document are not necessarily complete and, in each instance, reference is made to the copy of such contract or other document filed with the SEC, each such statement being qualified in all respects by such reference.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by reference to, and should be read in conjunction with, the more detailed information and the Financial Statements (including the notes thereto) appearing elsewhere in this Prospectus. Unless otherwise specifically referenced, all references to dollar amounts refer to United States dollars.

The Company

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 nine subsidiaries which it directly and indirectly owns as follows: (1) Rio Bravo Energy LLC, (2) Arrecefe Management LLC, (3) Marea Associates, L.P., (4) Terranova Energia, S.de R.L. de C.V. and (5) Sonterra Energy Corporation. We also own a 97% limited partnership interest in Reef Ventures, L.P.(6). 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(8) and Reef Marketing LLC(9). Rio Bravo Energy, LLC owns 100% of the member interest in Sonora Pipeline LLC. (7) Reef Ventures, L.P. owns 100% of the member interest in Reef International

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LLC(8) and Reef Marketing LLC(9).

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

Unless otherwise noted, the "Company" as used in this Prospectus, will refer to Tideland Oil & Gas Corporation as described above.

The Offering

This prospectus relates to the offer and sale by some of our shareholders during the period in which the registration statement containing this prospectus is effective up to 39,293,657 common shares consisting of:

- o up to 7,500,000 shares are issuable upon exercise of outstanding warrants, at exercise price of \$0.335 per share to Impact International, LLC;
- o up to 1,699,980 shares issued and outstanding for sale by Impact International, LLC;
- o up to 10,403,618 shares issued and outstanding for sale by selling security holders;
- o up to 11,111,111 shares are issuable upon conversion of outstanding 7% Convertible Debentures, which are convertible pursuant to a formula, provided that the conversion price shall not be less than \$0.45, nor more than \$0.76 per share; and
- o up to 6,578,948 shares are issuable upon exercise of outstanding warrants at exercise prices ranging between \$0.80 and \$0.87 per share.
- o up to 1,000,000 shares are issuable upon the exercise of outstanding warrants at an exercise price of \$0.50 per share,
- o up to 1,000,000 shares are issuable upon the exercise of outstanding warrants at an exercise price of \$2.50 per share.

The common shares offered under this prospectus may be sold by the selling shareholders on the public market, in negotiated transactions with a broker-dealer or market maker as principal or agent, or in privately negotiated transactions not involving a broker or dealer. Information regarding the selling shareholders, the common shares they are offering to sell under this prospectus, and the times and manner in which they may offer and sell those shares is provided in the sections of this prospectus captioned "Selling Shareholders", "Registration Rights" and "Plan of Distribution". We will not receive any of the proceeds from those sales. Should the selling shareholders in their discretion, exercise any of the common share purchase warrants underlying the common shares offered under this prospectus, we would, however, receive the exercise price for those warrants. The registration of common shares pursuant to this prospectus does not necessarily mean that any of those shares will ultimately be offered or sold by the selling shareholders.

Information on Outstanding Shares

The number of shares of our common stock outstanding before and after this offering is set forth below:

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- o Common shares issued and outstanding before this offering: 62,363,359
- o Common shares issued and outstanding after this Offering: 89,923,898

The number set forth above for the shares of common stock outstanding before this offering is the number of shares of our common stock outstanding on March 31, 2005. The number of shares issued and outstanding after this Offering assumes that all of the warrants are exercised and the debentures are converted at the "Floor Price \$0.45" and the underlying shares issued and sold. None of the warrant or debenture holders are obligated to exercise their warrants or convert their Debentures. The Debenture conversion price may vary between the "Floor Price \$0.45" and "Ceiling Price \$0.76".

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Recent Developments

Mercator Financing

On November 18, 2004, we completed a \$5 million financing through the sale of 7% Convertible Debentures ("Debentures"). The financing was completed in a private placement with the M.A.G. Capital, LLC, formerly known as Mercator Advisory Group, LLC and its related funds. We received the first \$3,250,000 Dollars on November 19, 2004, and the balance of \$1,750,000 Dollars two days following our initial filing of this registration statement. The Debentures are convertible at any time into shares of our common stock at 85% of the average of the lowest three inter-day trading prices of our common stock during the ten consecutive trading days immediately preceding the conversion date, with a maximum conversion price of \$0.76 per share and a minimum conversion price of \$0.45 per share. If we are unable to have this registration statement declared effective within the 90 days following its filing with the Securities and Exchange Commission (SEC) the conversion price of the Debentures will be reduced from 85% to 75% of the average of the lowest three inter-day trading prices of our common as specifically outlined above.

As part of this financing, we issued three-year warrants to the Mercator Advisory Group and its related funds entitling them to purchase an aggregate of 6,578,948 shares of our common stock, half at \$0.80 per share and half at \$0.87 per share. We also paid to Mercator Advisory Group \$200,000 as due diligence fees and \$15,000 as reimbursement of legal expenses.

In connection with the financing, we paid \$250,000 to KMR Capital, LLC, as placement agent. KMR also received 450,000 warrants to purchase our common stock exercisable 200,000 shares at \$0.80, 150,000 shares at \$0.84 and 100,000 shares at \$0.87.

Oneok Propane Acquisition

On November 1, 2004, through our subsidiary, Sonterra Energy Corporation, we entered into an Asset Purchase and Sale Agreement with Oneok Propane Distribution Company, a division of ONEOK Propane Company, a Delaware corporation. We purchased the assets of this division for Two Million (\$2,000,000). The assets consist of propane distribution systems, including gas mains, yard lines, meters and storage tanks, serving the following residential subdivisions in the Austin, Texas area:

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Austin's Colony Phase II
Costa Bella
Jacarandas
Lake Pointe
La Ventana
Lakewinds Estates
Northshore on Lake Travis Phase I
Riverbend
Rob Roy Rim
Senna Hills
Sterling Acres
The Point
The Preserve at Barton Creek

The propane distribution system is comprised of approximately 25 miles of gas main pipe, 75,000 feet of yard lines, 850 meters, storage tanks with a combined capacity of 156,000 gallons.

On November 1, 2004, Sonterra also acquired assets of BNC Engineering for \$250,000. BNC Engineering constructed residential propane systems. It also provided operating services for Oneok residential propane systems. The assets consisted of machinery, vehicles, computer equipment, construction equipment, meters and an inventory of pipe and fittings for use in the construction of gas mains, service lines and other storage tanks. We assumed BNC Engineering's lease obligations for a field office mobile houses and a photocopier lease. Sonterra employed the field operating personnel associated with the residential propane operations.

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ACH Financing Oneok Propane Acquisition

On October 13, 2004, we sold Four Million (4,000,000) Tidelands Oil & Gas common shares to ACH Securities, S.A., a company domiciled in Geneva, Switzerland, for Two Million (\$2,000,000) Dollars. On October 14, 2004, in connection with the ACH Securities transaction, we issued Margaux Investment Group, S.A. common stock warrants to purchase One Million (1,000,000) Tidelands Oil & Gas common shares for Fifty (\$0.50) Cents per share. We used the proceeds of the ACH financing to fund Sonterra's purchase of the Oneok propane distribution business.

Use of Proceeds

We will not realize any of the proceeds from the sale of the shares offered by the selling stockholders. See "Use of Proceeds". However, we may receive cash proceeds from the exercise of common stock warrants in the form of cash or credit to outstanding financial obligations. Proceeds from the conversion of the 7% Debentures will offset all or a portion of the Debenture obligations. Proceeds from the Impact International warrants will reduce our promissory note debt owed to Impact. All other uncommitted proceeds will be used for working capital.

Summary Financial Information

The following table presents selected historical financial data for the Company derived from the Company's Financial Statements. The historical financial data

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are qualified in their entirety by reference to, and should be read in conjunction with, the Financial Statements and notes thereto of the Company, which are incorporated by reference into this Prospectus. The following data should be read in conjunction with "Plan of Operation" and the Financial Statements of the Company and the notes thereto included elsewhere in this Prospectus.

	Fiscal Year Ended December 31		(Unaudited) Three Months Ended March 31	
	2003	2004	2005	2004
	-----	-----	-----	-----
Statement of Operations				
Data:				
Revenue	\$ 178,856	\$ 1,883,838	\$ 628,075	-0-
Net income (loss)	(\$1,348,481)	\$ (6,517,182)	\$ (1,236,692)	\$ (1,534,341)
	-----	-----		
Basic and Diluted Net income (loss) per share	\$ (0.03)	\$ (0.12)	\$ (0.02)	(0.03)
	-----	-----		

	Fiscal Year Ended December 31		(Unaudited) Three Months Ended March 31	
	2003	2004	2005	2004
	-----	-----	-----	-----
Balance Sheet Data:				
Working Capital	(\$ 221,011)	\$ 5,996,228	\$ 5,142,377	\$ 3,796,131
Total assets	\$ 1,623,515	\$17,222,666	\$16,317,998	\$ 4,965,541
Total liabilities	\$ 1,138,905	\$12,306,107	\$12,256,131	\$ 333,811
Stockholder's equity (deficit)	\$ 484,610	\$ 4,916,559	\$ 4,061,867	\$ 4,631,730

RISK FACTORS

An investment in the Securities offered in this Prospectus involves a high degree of risk and should only be made by persons who can afford the loss of their entire investment. Accordingly, prospective investors should consider carefully the following factors, in addition to the other information concerning the Company and its business contained in this Prospectus, before purchasing the

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Securities offered hereby. An investment in the common stock the selling shareholders are offering to resell is risky. You should be able to bear a complete loss of your investment. Before purchasing any of the common stock, you should carefully consider the following risk factors, among others.

OPERATING LOSSES

We have had significant losses ever since starting business and we expect to continue losing money for some time. To date, we have incurred significant losses. For the year ended December 31, 2004, we lost \$6,517,182 and for the year ended December 31, 2003, we lost \$1,348,481. These losses were caused

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primarily by:

- o Pre-operating expenses for the development period leading to commencement of operations of the international pipeline crossing at Eagle Pass;
- o Limited volumes of gas transported through the international pipeline crossing
- o Pre-development and operating expenses associated with the development of additional pipeline and storage projects in Mexico;
- o Idle assets not producing revenue, such as the gas plant and associated pipeline.

LIMITED OPERATING HISTORY.

We have a limited operating history and our financial health will be subject to all the risks inherent in the establishment of a new business enterprise. The likelihood of success of our company must be considered in the light of the problems, expenses, difficulties, complications, and delays frequently encountered in connection with the startup and growth of a new business, and the competitive environment in which we will operate. Our success is dependent upon the successful financing and development of our business plan. No assurance of success is offered. Unanticipated problems, expenses, and delays are frequently encountered in establishing a new business and marketing and developing products. These include, but are not limited to, competition, the need to develop customers and market expertise, market conditions, sales, marketing and governmental regulation. The failure of the Company to meet any of these conditions would have a materially adverse effect upon the Company and may force the Company to reduce or curtail operations. No assurance can be given that the Company can or will ever operate profitably.

WE DEPEND HEAVILY ON THE CONTINUED SERVICE OF OUR CHIEF EXECUTIVE OFFICER.

We place substantial reliance upon the efforts and abilities of Michael Ward, our chief executive officer. The loss of Mr. Ward's services could have a serious adverse effect on our business, operations, revenues or prospects. We maintain key man insurance on his life in the amount of One Million Dollars.

RELIANCE ON MANAGEMENT.

All decisions with respect to the management of our Company will be made by our Company's directors and officers. Accordingly, no person should purchase any shares offered by this Prospectus unless the subscriber is willing to entrust all aspects of management to the Directors and Officers of our Company. The loss of their services could have a material adverse effect on our Company's business and prospects.

TRADING IN OUR COMMON STOCK ON THE OTC BULLETIN BOARD MAY BE LIMITED.

Our common stock trades on the OTC Bulletin Board. The OTC Bulletin Board is not an exchange. Trading of securities on the OTC Bulletin Board is often more sporadic than the trading of securities listed on an exchange or NASDAQ. You may have difficulty reselling any of the shares that you purchase from the selling shareholders.

THERE HAS BEEN AN VOLATILE PUBLIC MARKET FOR OUR COMMON STOCK AND THE PRICE OF OUR STOCK MAY BE SUBJECT TO FLUCTUATIONS.

We cannot assure you that a liquid transparent trading market for our common stock will develop or be sustained. You may not be able to resell your shares at or above the initial offering price. The market price of our common stock is likely to be volatile and could be subject to fluctuations in response to factors such as the following, most of which are beyond our control:

- o operating results that vary from the expectations of securities analysts and investors;
- o changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- o the operations, regulatory, market and other risks discussed in this section;
- o announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- o announcements by third parties of significant claims or proceedings against us; and
- o future sales of our common stock.

In addition, the market for our stock has from time to time experienced extreme price and volume fluctuations. These broad market fluctuations may adversely affect the market price of our common stock

OUR COMMON STOCK IS SUBJECT TO PENNY STOCK REGULATION.

Our common stock is subject to regulations of the Securities and Exchange Commission relating to the market for penny stocks. The Securities Enforcement and Penny Stock Reform Act of 1990 (the "Reform Act") also requires additional disclosure in connection with any trades involving a stock defined as a "penny stock" (generally, according to recent regulations adopted by the Commission, any equity security that has a market price of less than \$5.00 per share, subject to certain exceptions), including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith. These regulations generally require broker-dealers who sell penny stocks to persons other than established customers and accredited investors to deliver a disclosure schedule explaining the penny stock market and the risks associated with that market. These regulations also impose various sales practice requirements on broker-dealers. The regulations that apply to penny stocks may severely affect the market liquidity for our securities and that could limit your ability to sell your securities in the secondary market.

RISKS RELATING TO LOW-PRICE STOCKS.

Because our stock is quoted on the NASD OTC Electronic Bulletin Board and subject to the Penny Stock Regulations, an investor may find it difficult to dispose of, or to obtain accurate quotations as to the market value of, our Company's securities. The regulations governing low-priced or penny stocks could limit the ability of broker-dealers to sell the Company's securities and thus the ability of the purchasers of this Offering to sell their securities in the secondary market.

THE EXERCISE OF WARRANTS AND THE CONVERSION OF THE DEBENTURES COULD DEPRESS OUR STOCK PRICE AND REDUCE YOUR PERCENTAGE OF OWNERSHIP.

If all of the Warrants are exercised and Debentures converted at the "Floor Price" and assuming that we issue a total of 28,190,059 will dilute the percentage ownership of our other shareholders. The "Description of Securities" section of this prospectus provides you with more information about the Warrants and Debentures.

WE MAY NOT HAVE ENOUGH FUNDING TO COMPLETE OUR BUSINESS PLAN.

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We will need additional financing to fully implement our business plan. We cannot give any assurance that this additional financing could be obtained on attractive terms or at all. In addition, our ability to raise additional funds through a private placement may be restricted by SEC rules which limit a company's ability to sell securities similar to those being sold in a registered offering before the time that offering is completed or otherwise terminated. Additionally, we may not have a sufficient quantity of common stock capital if all of the warrants are exercised and debentures converted. We would have to amend our articles of incorporation and increase our authorized common stock capital. Lack of funding could force us to curtail substantially or cease our operations.

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FUTURE CAPITAL NEEDS COULD RESULT IN DILUTION TO INVESTORS; ADDITIONAL FINANCING COULD BE UNAVAILABLE OR HAVE UNFAVORABLE TERMS.

Our Company's future capital requirements will depend on many factors, including cash flow from operations, progress in its gas operations, competing market developments, and the Company's ability to market its proposed products successfully. Although the Company currently has specific plans and arrangements for financing its working capital is presently insufficient to fund the Company's activities. It may be necessary to raise additional funds through equity or debt financings. Any equity financings could result in dilution to our Company's then-existing stockholders. Sources of debt financing may result in higher interest expense. Any financing, if available, may be on terms unfavorable to the Company. If adequate funds are not obtained, the Company may be required to reduce or curtail operations. The Company anticipates that its existing capital resources, together with the net proceeds of this Offering, will be adequate to satisfy its operating expenses and capital requirements for at least 6 months after the date of this Prospectus. However, such estimates may prove to be inaccurate.

SUBSTANTIAL CAPITAL REQUIREMENTS

We may make substantial capital expenditures for the development, acquisition and production of natural gas pipeline, processing systems and, or storage facilities. We believe that the Company will have sufficient cash provided by operating activities and equity financing to fund planned capital expenditures in the near future. If revenues or the Company's equity financing decrease as a result of lower natural gas prices, operating difficulties, the Company may have limited ability to expend the capital necessary to undertake or complete proposed plans and opportunities. There can be no assurance that additional debt or equity financing or cash generated by operations will be available to meet these requirements.

WE CAN GIVE NO ASSURANCE REGARDING THE AMOUNTS OF CASH THAT WE WILL GENERATE.

The actual amounts of cash we generate will depend upon numerous factors relating to our business which may be beyond our control, including:

- o the demand for natural gas;
- o profitability of operations;
- o required principal and interest payments on any debt we may incur;
- o the cost of acquisitions;
- o our issuance of equity securities;
- o fluctuations in working capital;
- o capital expenditures;
- o continued development of gas transportation network systems;

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- o prevailing economic conditions;
- o government regulations.

WE DO NOT EXPECT TO PAY DIVIDENDS FOR SOME TIME, IF AT ALL.

No cash dividends have been paid on the Common Stock. We expect that any income received from operations will be devoted to our future operations and growth. We do not expect to pay cash dividends in the near future. Payment of dividends would depend upon our profitability at the time, cash available for those dividends, and other factors.

COMPETITION

Our Company will be competing with other established businesses that market similar products. Many of these companies have greater capital, marketing and other resources than we do. There can be no assurance that these or other companies will not develop new or enhanced products that have greater market acceptance than any that may be marketed by the Company. There can be no assurance that our Company will successfully differentiate itself from its competitors or that the market will consider our products to be superior or to or more appealing than those of our competitors. Market entry by any significant competitor may have an adverse effect on our sales and profitability. See "Competition."

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WE OPERATE IN HIGHLY COMPETITIVE MARKETS IN COMPETITION WITH A NUMBER OF DIFFERENT COMPANIES.

We face strong competition in our geographic areas of operations. Our competitors include major integrated oil companies, interstate and intrastate pipelines. We compete with integrated companies that have greater access to raw natural gas supply and are less susceptible to fluctuations in price or volume, and some of our competitors that have greater financial resources may have an advantage in competing for acquisitions or other new business opportunities.

GROWING OUR BUSINESS BY CONSTRUCTING NEW PIPELINES AND PROCESSING FACILITIES SUBJECTS US TO CONSTRUCTION RISKS AND RISKS THAT RAW NATURAL GAS SUPPLIES WILL NOT BE AVAILABLE UPON COMPLETION OF THE FACILITIES.

One of the ways we intend to grow our business is through the construction of additions to our existing gathering systems, modification of our existing gas processing plant and construction of new processing facilities. The construction of gathering and processing facilities requires the expenditure of significant amounts of capital, which may exceed our expectations. Generally, we may have only limited raw natural gas supplies committed to these facilities prior to their construction. Moreover, we may construct facilities to capture anticipated future growth in production in a region in which anticipated production growth does not materialize. As a result, there is the risk that new facilities may not be able to attract enough raw natural gas to achieve our expected investment return, which could adversely affect our results of operations and financial condition.

A SIGNIFICANT COMPONENT OF OUR GROWTH STRATEGY WILL BE ACQUISITIONS AND WE MAY NOT BE ABLE TO COMPLETE FUTURE ACQUISITIONS SUCCESSFULLY.

Our business strategy will emphasize growth through strategic acquisitions, but we cannot assure you that we will be able to identify attractive or willing

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acquisition candidates or that we will be able to acquire these candidates on economically acceptable terms. Competition for acquisition opportunities in our industry exists and may increase. Any increase in the level of competition for acquisitions may increase the cost of, or cause us to refrain from, completing acquisitions.

Our strategy of acquisitions is dependent upon, among other things, our ability to obtain debt and equity financing and possible regulatory approvals. Our ability to pursue our growth strategy may be hindered if we are not able to obtain financing or regulatory approvals, including those under federal and state antitrust laws. Our ability to grow through acquisitions and manage such growth will require us to invest in operational, financial and management information systems and to attract, retain, motivate and effectively manage our employees. The inability to manage the integration of acquisitions effectively could have a material adverse effect on our financial condition, results of operations and business. Pursuit of our acquisition strategy may cause our financial position and results of operations to fluctuate significantly from period to period.

IF WE ARE UNABLE TO MAKE ACQUISITIONS ON ECONOMICALLY AND OPERATIONALLY ACCEPTABLE TERMS, OUR FUTURE FINANCIAL PERFORMANCE MAY BE LIMITED.

There can be no assurance that:

- o we will identify attractive acquisition candidates in the future;
- o we will be able to acquire assets on economically acceptable terms;
- o any acquisitions will not be dilutive to earnings and operating surplus; or
- o any debt incurred to finance an acquisition will not affect our ability to make distributions to you.

If we are unable to make acquisitions on economically and operationally acceptable terms, our future financial performance will be limited to the performance of our present gas gathering network.

Our acquisition strategy involves many risks, including:

- o difficulties inherent in the integration of operations and systems;
- o the diversion of management's attention from other business concerns; and
- o the potential loss of key employees of acquired businesses.

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In addition, future acquisitions may involve significant expenditures. Depending upon the nature, size and timing of future acquisitions, we may be required to secure financing. We cannot assure you that additional financing will be available to us on acceptable terms.

OUR BUSINESS IS DEPENDENT UPON PRICES AND MARKET DEMAND FOR NATURAL GAS AND PROPANE, WHICH ARE BEYOND OUR CONTROL AND HAVE BEEN EXTREMELY VOLATILE.

We are subject to significant risks due to fluctuations in commodity prices, primarily with respect to the prices of gas that we may own as a result of our processing and distribution activities.

The markets and prices for residue gas depend upon factors beyond our control. These factors include demand for oil, and natural gas, which fluctuate with

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changes in market and economic conditions and other factors, including:

- o the impact of weather on the demand for oil and natural gas;
- o the level of domestic oil and natural gas production;
- o the availability of imported oil and natural gas;
- o the availability of local, intrastate and interstate transportation systems;
- o the availability and marketing of competitive fuels;
- o the impact of energy conservation efforts; and
- o the extent of governmental regulation and taxation.

WE GENERALLY DO NOT OWN THE LAND ON WHICH OUR PIPELINES ARE CONSTRUCTED AND WE ARE SUBJECT TO THE POSSIBILITY OF INCREASED COSTS FOR THE LOSS OF LAND USE.

We generally do not own the land on which our pipelines are constructed. Instead, we obtain the right to construct and operate the pipelines on other people's land for a period of time. If we were to lose these rights, our business could be affected negatively.

RISKS RELATED TO THE RETAIL PROPANE AND ASSOCIATED BUSINESSES

- o Decreases in the demand for propane because of warmer weather may adversely affect our financial condition and results of operations.
- o Weather conditions have a significant impact on the demand for propane for heating purposes. All of our propane customers rely heavily on propane as a heating fuel. The volume of propane sold is at its highest during the six-month peak heating season of October through March and is directly affected by the severity of the winter weather. We estimate that approximately two-thirds of our annual retail propane volume will be sold during these months. Actual weather conditions can vary substantially from quarter to quarter and year to year, significantly affecting our financial performance. Furthermore, warmer than normal temperatures in our service area can significantly decrease the total volume of propane we sell. Consequently, our operating results may vary significantly due to actual changes in temperature. Weather conditions in any quarter or year may have a material adverse effect on our operations.
- o Sudden and sharp propane price increases that cannot be passed on to customers may adversely affect our profits, income, and cash flow.
- o Energy efficiency and technology may reduce the demand for propane and our revenues.
- o The national trend toward increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, has adversely affected the demand for propane by retail customers. Future conservation and efficiency measures or technological advances in heating, conservation, energy generation, or other devices might reduce demand for propane and our revenues.
- o The propane business is highly regulated. New or stricter environmental, health, or safety regulations may increase our operating costs and reduce our net income.

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- o The propane business is subject to a wide range of federal, state, and local environmental, transportation, health and safety laws and regulations governing the storage, distribution, and transportation of propane. We may have increased costs in the future due to new or stricter safety, health, transportation, and environmental regulations or liabilities resulting from non-compliance with operating or other regulatory permits. The increase in any such costs may reduce our net income.
- o We will be subject to all operating hazards and risks normally associated with handling, storing, transporting, and delivering combustible liquids such as propane for use by consumers. As a result, we may be a defendant in various legal proceedings and litigation arising in the ordinary course of business. Our insurance may not be adequate to protect us from all material expenses related to potential future claims for personal injury and property damage or that insurance will be available in the future at economical prices. In addition, the occurrence of a serious accident, whether or not we are involved, may have an adverse effect on the public's desire to use our products.

GOVERNMENT REGULATION AND ENVIRONMENTAL MATTERS

Our business is regulated by certain local, state and federal laws and regulations relating to the exploration for, and the development, production, marketing, pricing, transportation and storage of, natural gas and oil. We are also subject to extensive and changing environmental and safety laws and regulations governing plugging and abandonment, the discharge of materials into the environment or otherwise relating to environmental protection. In addition, we are subject to changing and extensive tax laws, and the effect of newly enacted tax laws cannot be predicted. The implementation of new, or the modification of existing, laws or regulations, including regulations which may be promulgated under the Oil Pollution Act of 1990, could have a material adverse effect on the Company.

FEDERAL, STATE OR LOCAL REGULATORY MEASURES COULD ADVERSELY AFFECT OUR BUSINESS.

While the Federal Energy Regulatory Commission, or FERC, does not directly regulate the major portions of our operations, federal regulation, directly or indirectly, influences certain aspects of our business and the market for our products. As a raw natural gas gatherer and not an operator of interstate transmission pipelines, we generally are exempt from FERC regulation under the Natural Gas Act of 1938, but FERC regulation still significantly affects our business. In recent years, FERC has pursued pro-competition policies in its regulation of interstate natural gas pipelines. However, we cannot assure you that FERC will continue this approach as it considers proposals by pipelines to allow negotiated rates not limited by rate ceilings, pipeline rate case proposals and revisions to rules and policies that may affect rights of access to natural gas transportation capacity.

While state public utility commissions do not regulate our business, state and local regulations do affect our business. We are subject to ratable take and common purchaser statutes in the states where we operate. Ratable take statutes generally require gatherers to take, without undue discrimination, natural gas production that may be tendered to the gatherer for handling. Similarly, common purchaser statutes generally require gatherers to purchase without undue discrimination as to source of supply or producer. These statutes are designed to prohibit discrimination in favor of one producer over another producer or one source of supply over another source of supply. These statutes also have the effect of restricting our right as an owner of gathering facilities to decide with whom we contract to purchase or transport natural gas. Federal law leaves any economic regulation of raw natural gas gathering to the states, and some of the states in which we operate have adopted complaint-based or other limited

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economic regulation of raw natural gas gathering activities. States in which we operate that have adopted some form of complaint-based regulation, like Oklahoma, Kansas and Texas, generally allow natural gas producers and shippers to file complaints with state regulators in an effort to resolve grievances relating to natural gas gathering access and rate discrimination. The states in which we conduct operations administer federal pipeline safety standards under

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the Pipeline Safety Act of 1968, and the "rural gathering exemption" under that statute that our gathering facilities currently enjoy may be restricted in the future. The "rural gathering exemption" under the Natural Gas Pipeline Safety Act of 1968 presently exempts substantial portions of our gathering facilities from jurisdiction under that statute, including those portions located outside of cities, towns, or any area designated as residential or commercial, such as a subdivision or shopping center.

OUR BUSINESS INVOLVES HAZARDOUS SUBSTANCES AND MAY BE ADVERSELY AFFECTED BY ENVIRONMENTAL REGULATION.

Many of the operations and activities of our gathering systems, plants and other facilities are subject to significant federal, state and local environmental laws and regulations. These include, for example, laws and regulations that impose obligations related to air emissions and discharge of wastes from our facilities and the cleanup of hazardous substances that may have been released at properties currently or previously owned or operated by us or locations to which we have sent wastes for disposal. Various governmental authorities have the power to enforce compliance with these regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Liability may be incurred without regard to fault for the remediation of contaminated areas. Private parties, including the owners of properties through which our gathering systems pass, may also have the right to pursue legal actions to enforce compliance as well as to seek damages for non-compliance with environmental laws and regulations or for personal injury or property damage.

There is inherent risk of the incurrence of environmental costs and liabilities in our business due to our handling of natural gas and other petroleum products, air emissions related to our operations, historical industry operations, waste disposal practices and the prior use of natural gas flow meters containing mercury. In addition, the possibility exists that stricter laws, regulations or enforcement policies could significantly increase our compliance costs and the cost of any remediation that may become necessary. We cannot assure you that we will not incur material environmental costs and liabilities. Furthermore, we cannot assure you that our insurance will provide sufficient coverage in the event an environmental claim is made against us.

Our business may be adversely affected by increased costs due to stricter pollution control requirements or liabilities resulting from non-compliance with required operating or other regulatory permits. New environmental regulations might adversely affect our products and activities, including processing, storage and transportation, as well as waste management and air emissions. Federal and state agencies also could impose additional safety requirements, any of which could affect our profitability.

RISK OF ADDITIONAL COSTS AND LIABILITIES RELATED TO ENVIRONMENTAL AND SAFETY REGULATIONS AND CLAIMS

Our pipeline operations are subject to various federal, state and local environmental, safety, health and other laws, which can increase the cost of

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planning, designing, installing and operating such facilities. There can be no assurance that costs and liabilities relating to compliance will not be incurred in the future. Moreover, it is possible that other developments, such as increasingly strict environmental and safety laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from our operations, could result in additional costs to and liabilities for us.

GOVERNMENTAL REGULATION OF OUR PIPELINES COULD INCREASE OUR OPERATING COSTS

Currently our operations involving the gathering of natural gas from wells are exempt from regulation under the Natural Gas Act. Section 1(b) of the Natural Gas Act provides that the provisions of the Act shall not apply to facilities used for the production or gathering of natural gas. Our physical dimensions and operations support the conclusion that our facilities perform primarily a gathering function. We should not, therefore, be subject to Natural Gas Act regulation. There, however, can be no assurance that this will remain the case. The Federal Energy Regulatory Commission's oversight of entities subject to the Natural Gas Act includes the regulation of rates, entry and exit of service, acquisition, construction and abandonment of transmission facilities, and accounting for regulatory purposes. The implementation of new laws or policies

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that would subject us to regulation by the Federal Energy Regulatory Commission under the Natural Gas Act could have a material adverse effect on our financial condition and operations. Similarly, changes in the method or circumstances of operation, or in the configuration of facilities, could result in changes in our regulatory status.

Our gas gathering operations are subject to regulation at the state level, which increases the costs of operating our pipeline facilities. Matters subject to regulation include rates, service and safety. We have been granted an exemption from regulation as a public utility in Texas. Presently, our rates are not regulated in Texas. Changes in state regulations, or our status under these regulations due to configuration changes in our operating facilities, that subject us to further regulation could have a material adverse effect on our financial condition. Litigation or governmental regulation relating to environmental protection and operational safety may result in substantial costs and liabilities.

Our operations are subject to federal and state environmental laws under which owners of natural gas pipelines can be liable for clean-up costs and fines in connection with any pollution caused by the pipelines. We can also be liable for clean-up costs resulting from pollution which occurred before our acquisition of the gathering systems. In addition, we are subject to federal and state safety laws that dictate the type of pipeline, quality of pipe protection, depth, methods of welding and other construction-related standards. While we believe that the gathering systems comply in all material respects with applicable laws, we cannot assure you that future events will not occur for which we may be liable. Possible future developments, including stricter laws or enforcement policies, or claims for personal or property damages resulting from our operations could result in substantial costs and liabilities to us.

SOVEREIGN RISK

The Company is focusing on the development of infrastructure projects through its Mexican entity, Terranova Energia S.de R.L. de C.V., in the nation of the United Mexican States (Mexico). The risk of indirect or regulatory actions by local, state or federal authorities in Mexico which may inhibit, delay, hinder

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or block projects under development in Mexico is very high given the history of operations conducted by past businesses other than the Company in Mexico. There is a substantial risk that a set of actions taken by commission or omission by the various actors in the public, private, nongovernmental and/or social sectors could negatively impact a project or investment in Mexico. The legal system employed in Mexico is dramatically different in its structure and method of operation compared to the common law foundation present in the United States of America. The level of legal protection afforded investors by the North American Free Trade Agreement has not materially improved from a foreign investor's viewpoint.

There can be no assurance that a commercially viable project will be completed due to the above factors which could result in commercial competitors trying to circumvent the market system through the exploitation of undocumented, extraofficial channels of influence that constitute unfair competition. Federal, state and local authorities are not well coordinated in their legal protections and improper influence and competition may arise from any level of government to disrupt or destroy the commercial viability of investments by foreign investors. While the Company has taken precautions to limit its investments to prudent levels, there is a continuing risk of adverse activities arising from the above sources that could impair or result in the entire loss of investment in otherwise commercially viable projects initiated by the Company in Mexico.

PIPELINE SYSTEM OPERATIONS ARE SUBJECT TO OPERATIONAL HAZARDS AND UNFORESEEN INTERRUPTIONS

The operations of our pipeline systems are subject to hazards and unforeseen interruptions, including natural disasters, adverse weather, accidents or other events, beyond our control. A casualty occurrence might result in injury and extensive property or environmental damage. Although we intend to maintain customary insurance coverages for gathering systems of similar capacity, we can offer no assurance that these coverages will be sufficient for any casualty loss we may incur.

OPERATING RISKS OF NATURAL GAS OPERATIONS

The natural gas business involves certain operating hazards. The availability of a ready market for our natural gas products also depends on the proximity of reserves to, and the capacity of, natural gas gathering systems, pipelines and

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trucking or terminal facilities. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could reduce or eliminate the funds available for exploration, development or acquisitions or result in the loss of the Company's properties. In accordance with customary industry practices, the Company maintains insurance against some, but not all, of such risks and losses. The Company does not carry business interruption insurance. The occurrence of such an event not fully covered by insurance could have a material adverse effect on the financial condition and results of operations of the Company.

OUR BUSINESS INVOLVES MANY HAZARDS AND OPERATIONAL RISKS, SOME OF WHICH MAY NOT BE COVERED BY INSURANCE.

Our operations are subject to the many hazards inherent in the gathering, compressing, treating and processing of raw natural gas and NGLs and storage of residue gas, including ruptures, leaks and fires. These risks could result in substantial losses due to personal injury and/or loss of life, severe damage to

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and destruction of property and equipment and pollution or other environmental damage and may result in curtailment or suspension of our related operations. We are not fully insured against all risks incident to our business. If a significant accident or event occurs that is not fully insured, it could adversely affect our operations and financial condition.

INSURANCE

Companies engaged in the petroleum products distribution and storage business may be sued for substantial damages in the event of an actual or alleged accident or environmental contamination. The Company maintains \$2,000,000 of liability insurance. There can be no assurance that we will be able to continue to maintain liability insurance at a reasonable cost in the future, or that a potential liability will not exceed the coverage limits. Nor can there be any assurance that the amount of insurance carried by us will enable it to satisfy any claims for which it might be held liable resulting from the conduct of its business operations.

USE OF PROCEEDS

We will not receive any proceeds from the sale of the shares by the selling shareholders. However, we may receive proceeds from the sale to (1) Impact International, LLC, (2) the Mercator Group of Funds, and (3) Margaux Investment Management Group, S.A., and (4) Robinson Reed, Inc. of common stock shares issuable upon the exercise of warrants. We intend to use the proceeds from the exercise of warrants by Impact for reduction of the principal balance of our financial obligation to Impact under the terms of the Promissory Note. If all of the warrants were exercised, the Debentures converted at the Floor Price and promissory notes paid in full, we could realize \$16,005,912 Dollars.

We will pay all the expenses incident to this registration. We plan to use any net proceeds received upon the exercise of the warrants for general corporate purposes.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the OTC Electronic Bulletin Board. The following table sets forth the high and low bid prices of our common stock for each quarter for the years 2003 and 2004. The quotations set forth below reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Common Stock:

Our common stock trades Over-the-Counter (OTC) on the OTC Bulletin Board under the symbol TIDE. Table 1. sets forth the high and low bid information for the past two years. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. These quarterly trade and quote data provided by NASDAQ OTC Bulletin Board.

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Table 1.

Bid Information

Fiscal Quarter Ended

High

Low

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March 31, 2005	1.98	1.85
December 31, 2004	1.36	0.60
September 30, 2004	2.18	0.73
June 30, 2004	3.18	1.70
March 31, 2004	4.45	1.72
December 31, 2003	2.57	0.75
September 30, 2003	1.05	0.24
June 30, 2003	0.47	0.20
March 31, 2003	0.40	0.15

On March 31, 2005, the closing bid and ask prices for shares of our common stock in the over-the-counter market, as reported by NASD OTC BB were \$1.98 and \$1.85 per share, respectively.

We believe that there are presently 39 market makers for our common stock. When stock is traded in the public market, characteristics of depth, liquidity and orderliness of the market may depend upon the existence of market makers as well as the presence of willing buyers and sellers. We do not know if these or other market makers will continue to make a market in our common stock. Further, the trading volume in our common stock has historically been both sporadic and light.

As of March 31, 2005 we had an aggregate of 86 stockholders of record as reported by our transfer agent, Signature Stock Transfer Co., Inc. Certain shares are held in the "street" names of securities broker dealers and we estimate the number of stockholders which may be represented by such securities broker dealer accounts may exceed 1,500. On March 31, 2005 we had 62,363,359 shares issued and outstanding.

Dividends and Dividend Policy

There are no restrictions imposed on the Company which limit its ability to declare or pay dividends on its common stock, except as limited by state corporation law. During the year ended December 31, 2004, no cash or stock dividends were declared or paid and none are expected to be paid in the foreseeable future.

We expect to continue to retain all earnings generated by our future operations for the development and growth of our business. The Board of Directors will determine whether or not to pay dividends in the future in light of our earnings, financial condition, capital requirements and other factors.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes our equity compensation plan information as of December 31, 2004. Information is included for equity compensation plans not approved by our security holders.

Table 1.

Equity Compensation Plan Information

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Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average Exercise price of outstanding options, warrants, and rights	Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity Compensation Plans approved by security holders	None	None	None
Equity Compensation Plans not approved by security holders	500,000 (1) 5,000,000 (2) 5,000,000 (3)	\$ 0.125 \$ 0.287 \$ 0.87	None 210,122 4,500,000
Total	10,500,000	\$0.333	4,710,122

(1) This plan registered shares issued for legal services rendered on behalf of the Company and approved by our Board of Directors. These shares were issued in lieu of cash legal fees for services rendered during 2002.

(2) On May 27, 2003, the Company adopted the 2003 Non-Qualified Stock Grant and Option Plan. The Plan reserved 5,000,000 shares. The Plan is administered by our Board of Directors. Directors, officers, employees consultants, attorneys, and others who provide services to our Company are eligible participants. Participants are eligible to be granted warrants, options, common stock as compensation.

(3) On November 2, 2004, the company adopted the 2004 Non-Qualified Stock Grant and Option Plan. The Plan reserved 5,000,000 shares. The Plan is administered by our Board of Directors. Directors, officers, employees consultants, attorneys, and others who provide services to our Company are eligible participants. Participants are eligible to be granted warrants, options, common stock as compensation. On November 5, 2004, under the terms of James Smith's employment agreement, we granted and issued 500,000 common shares to him under this Plan.

BUSINESS

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 nine subsidiaries which it directly and indirectly owns as follows: (1) Rio Bravo Energy LLC, (2) Arrecefe Management LLC, (3) Marea Associates, L.P. , (4) Terranova Energia, S.de R.L. de C.V. and (5) Sonterra Energy Corporation. We also own a 97% limited partnership interest in Reef Ventures, L.P.(6). Arrecefe Management LLC owns a 1% general partner interest in Reef Ventures, L.P. Rio Bravo Energy, LLC owns 100% of the membership interest in Sonora Pipeline LLC. (7) Reef Ventures, L.P. owns 100% of the member interest in Reef International LLC(8) and Reef Marketing LLC(9).

The Company's products and services are primarily focused on development and

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operation of transportation, processing, distribution and storage projects for natural gas and natural gas liquids in the northeastern states of Mexico (Chihuahua, Coahuila, Nuevo Leon and Tamaulipas) and the State of Texas.

Reef Ventures International Pipeline

Until September 30, 2004, we derived our revenue from sales of natural gas to Conagas, the local distribution company in Piedras Negras, Coahuila, through the pipeline owned by Reef Ventures, L.P. On September 1, 2004, we converted the revenue source for this pipeline to a transportation fee. As a reseller of natural gas we were obligated to restrict of use of \$1,000,000 of cash in order to fund a credit facility in favor of the seller of natural gas. We believe that converting the revenue source to a transportation fee that we will double net revenues based upon current gas volumes committed for delivery to the customer in Piedras Negras, Coahuila. Additionally, Management is evaluating an expansion of the pipeline in Coahuila to serve new markets along the state highway No. 57 corridor to Monclova, Coahuila. The planned Liquid Petroleum Gas (LPG) 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 expected in the future. The above projects were acquired in connection with the buyout of the Impact general and limited partnership interests in Reef Ventures, L.P.

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Tidelands Oil & Gas Storage Enterprise

In December 2003, we entered into a Memorandum of Understanding (MOU) 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.

We have completed the initial study of the Burgos facility and expect to complete final contract negotiations with the Secretary of Energy and PEMEX for the construction and operation of the facility before the end of 2005. A system of two interconnecting pipelines is also proposed to enhance the overall pipeline grid in Mexico and the operational efficiency of the proposed storage facility. The capital budget for these projects exceeds \$700 Million Dollars and is expected to be funded through issuance of additional equity of the Company, the addition of joint venture partners and/or debt financing. Marea Associates, L.P. was formed to own the majority interest in Terranova Energia, S. de R.L. de C.V., a Mexican company which will conduct all business dealings in Mexico on behalf of Tidelands. 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

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 gas processing operations 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

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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 gas plant has the capability to fractionate natural gas into commercial grade propane and butane. The maximum intake capacity of gas plant is 10 million cubic feet of gas per day. Presently, we are evaluating opening the plant for LPG production for our Sonterra Energy Corporation Austin propane business. The market for the products of plant operation could include our future propane/butane terminal and pipeline crossing into Mexico, and/or LPG supply to Sonterra's propane business in Austin, Texas.

Sonora Pipeline, LLC

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. This pipeline network was acquired in conjunction with the Chittim Gas Processing Plant acquisition and, when operational, could 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.

Sonterra Energy Corporation Business

On November 1, 2004, through our subsidiary, Sonterra Energy Corporation subsidiary, we entered into an Asset Purchase and Sale Agreement with Oneok Propane Distribution Company, a division of ONEOK Propane Company, a Delaware corporation. We purchased the assets of this division for Two Million (\$2,000,000). The assets consist of propane distribution systems, including gas mains, yard lines, meters and storage tanks, serving the following residential 13 subdivisions in the Austin, Texas. Additionally, we provide gas to Arbolago and Hills of Lakeway subdivisions. The 15 subdivisions include:

- o Arbolago*
- o Austin's Colony Phase II
- o Costa Bella
- o Hills of Lakeway

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- o Jacarandas
- o Lake Pointe
- o La Ventana
- o Lakewinds Estates
- o Northshore on Lake Travis Phase I
- o Riverbend
- o Rob Roy Rim
- o Senna Hills
- o Sterling Acres
- o The Point
- o The Preserve at Barton Creek

These subdivisions contain 1,333 lots. Presently, 850 of lots are metered for use. There are 483 number of unmetered lots. As new homes are constructed on these lots our customer base will grow. Presently, 100% of the subdivisions are metered for propane consumption.

The propane distribution system is comprised of approximately 25 miles of gas

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main pipe, 75,000 feet of yard lines, 850 meters, storage tanks with a combined capacity of 156,000 gallons. Sonterra is the exclusive seller of propane in these subdivisions and is not considered a regulated utility. Sonterra purchases propane products from a number of distributors in Austin, Texas.

We financed the purchase of these assets by selling Four Million (4,000,000) shares to ACH Securities, S.A., a company domiciled in Geneva, Switzerland, for Two Million (\$2,000,000) Dollars. On October 14, 2004, in connection with the ACH Securities transaction, we issued Margaux Investment Group, S.A. common stock warrants to purchase One Million (1,000,000) shares for Fifty (\$0.50) Cents per share and One Million (1,000,000) shares at \$2.50 per share.

The Texas Railroad Commission regulates all aspects of the production, transportation and processing of petroleum products, including propane, in the State of Texas.

Competition

Reef Ventures, L.P. Eagle Pass Pipeline Crossing

Our Eagle Pass international pipeline crossing competes with a pipeline owned by West Texas Gas, Inc. pipeline crossing which is located two miles north of Eagle Pass. We believe that the West Texas Gas crossing will be able to compete with us only marginally beginning in 2006 due to a very limited transmission capability and marketing efforts currently being undertaken by Management.

Sonterra Energy Corporation Propane Distribution

Our propane distribution business serving the 15 Austin subdivisions is not subject to competition within the existing acquired subdivisions because we are the sole propane supplier. The residential subdivisions are subject to a propane supply covenant granting us the exclusive supply of propane for each subdivision. In the future, we will compete in the bidding process for new propane distribution systems as new residential subdivisions are developed. We may also be able to acquire additional existing propane distribution systems from competitors.

Employees

Tidelands has seven full time employees including our corporate officers. Our Sonterra Energy subsidiary, which operates the Austin propane gas distribution company, has 9 full-time employees.

PROPERTIES

Reef Ventures, L.P. owns and operates the international natural gas pipeline and related facilities located in Maverick County, Texas and Coahuila, Mexico. Tidelands owns a 97% limited partnership interest in this entity. We acquired this interest from Impact International, LLC. Impact financed our purchase of this system and we owe Impact \$ 6,731,883.

Rio Bravo Energy, LLC owns and operates the Chittim Gas Processing Plant which is located in Maverick, County, Texas. The plant is currently shut down. The gas plant has the capability to fractionate natural gas into commercial grade propane and butane. In the near future, we may activate this plant and produce

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propane for our Sonterra propane business in Austin, Texas.

Sonora Pipeline, LLC owns the Sonora Pipeline network consisting of approximately 80 miles of pipeline. No significant encumbrances exist with respect to the assets of this company. The pipeline is currently inactive and will be used primarily to transport natural gas from third party producers to supply feedstock for the Chittim Gas Processing Plant owned by Rio Bravo Energy LLC.

Sonterra Energy Corporation operates a propane distribution systems providing propane to 15 residential subdivisions in Austin, Texas. The propane distribution system is comprised of approximately 25 miles of gas main pipe, 75,000 feet of yard lines, 850 meters and storage tanks with a combined capacity of 156,000 gallons of LPG.

We lease our San Antonio executive office. We entered into this office lease on August 1, 2003. The term expires November 30, 2005. Our monthly lease payment is \$3,400. Our rent expense for 2004 was \$43,300. This figure includes \$2,500 rent paid on behalf of the Sonterra Energy Corporation operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS AND PLAN OF OPERATIONS

The following analysis of the results of operations and financial condition of our Company should be read in conjunction with the consolidated financial statements of Tideland Oil & Gas Corporation for the three months ending March 31, 2005 and year ended December 31, 2004 and notes thereto contained in the Report on Form 10-QSB and Form 10-KSB, respectively, of Tideland Oil & Gas Corporation as filed with the Securities and Exchange Commission.

BUSINESS OVERVIEW

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

We derive our revenue from sales of natural gas to Conagas, the local distribution company in Piedras Negras, Coahuila, through the pipeline owned by Reef Ventures, L.P. and the sale of propane gas to residential customers through the assets owned by Sonterra Energy Corporation. We also design and construct residential propane delivery systems for new residential developments in Central Texas.

With respect to our pipeline system owned by Reef Ventures, L.P., management is evaluating an expansion of the pipeline in Coahuila to serve new markets along the state highway No. 57 corridor to Monclova, Coahuila. We currently expect that this project will not be activated until the fourth quarter of 2005. 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 Texas and Mexico. We are evaluating the utility of the project as either a tolling business model for existing demand in Coahuila or as a merchant facility in a direct contract with the propane importation arm of PEMEX. We expect further development of the project to be announced by the fourth quarter of 2005.

Sonterra Energy Corporation, a wholly owned subsidiary of Tideland entered into the residential propane distribution business on November 1, 2004 with its acquisition of 850 existing customers located in 15 subdivisions in the vicinity of Austin, Texas. Sonterra's existing and future market area includes several central Texas locations that do not have access to natural gas as a fuel for home heating and appliance usage. Current expansion of over 400 lots within the existing subdivisions is possible. Sonterra has also entered into a new

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agreement with the developer of Northshore on Lake Travis to expand the currently serviced lots by an additional 1,000 units. Up to 2,625 additional lots may be available for installation of residential propane delivery in developments currently in the planning stages in the nearly central Texas vicinity. Management is actively seeking new subdivision installation of propane systems in the Central Texas and has recently identified 4 new subdivisions in the San Antonio/Austin Hill Country corridor as prospective for system installation.

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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 gas processing operations 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. We plan to reopen the plant in 2005 when adequate volumes of LPG feedstock from third parties makes plant operations economically attractive. We are evaluating the feasibility of opening the gas plant for LPG production for our Sonterra LPG business in Austin, Texas. Additionally, the market for the products of the Chittim plant operation could include our future propane/butane terminal and pipeline crossing into Mexico. As noted above, Rio Bravo Energy LLC 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. Presently, the line is not in use. The pipeline was acquired in conjunction with the Chittim Gas Processing Plant acquisition. When operational, it would generate revenue from transportation fees charged to third party gas producers shipping natural gas to the Chittim Gas Plant owned by Rio Bravo Energy LLC. Sonora Pipeline LLC will also own and operate the U.S. (Texas) pipeline segments to be constructed in connection with the Mexican pipeline, LNG regasification terminal and gas storage projects which will interconnect to the U.S. via two international pipeline crossings near McAllen, Texas. The estimated capital cost of these U.S. segments is approximately \$60 million USD. Management expects a filing with the Federal Energy Regulatory Commission in the second quarter of 2005 for permission to operate these new pipelines and the granting of presidential permits for the international crossings near Penitas and Progreso, Texas for delivery of natural gas into the state of Tamaulipas and the pipelines owned by our Mexican subsidiary, Terranova Energia S. de R.L. de C.V.

In October 2003, we entered into a confidentiality agreement with Pemex Exploration and Production ("PEP") to facilitate the exclusive exchange of well control and seismic data for the purpose of evaluating the feasibility and design of one or more underground natural gas storage facilities in the Burgos Basin of Northeast Mexico. In December 2003, we entered into a Memorandum of Understanding (MOU) 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.

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We have completed the initial study of the Burgos facility and expect to complete final contract negotiations with the Secretary of Energy and PEMEX for the construction and operation of the facility in the second or third quarter of 2005. A system of two interconnecting pipelines is also proposed to enhance the overall pipeline grid in Mexico and the operational efficiency of the storage facility. Permit applications for all these projects will be filed in 2005 with the Mexican Energy Regulatory Commission. The capital budget for these projects exceeds \$700 Million Dollars. We anticipate funding these projects with additional equity of the Company, the addition of joint venture partners and/or debt financing. 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 conduct all business dealings in Mexico on behalf of the Tidelands. 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.

We are in the preliminary design phase for an LNG regasification terminal to be located in offshore Mexican waters of the Gulf of Mexico near Matamoros, Tamaulipas. The Dorado LNG Terminal would provide additional supply for Northeast Mexico natural gas markets which are currently importing approximately 1.0 BCF per day from the U.S. The capital cost to build the terminal and interconnecting pipeline to the planned storage facility is expected to be over \$200 million USD. Management estimates a cumulative capital investment of approximately \$1 billion USD for the LNG regasification terminal, the pipelines in the U.S. and Mexico and the Mexican storage facility. These projects are targeted to address the critical infrastructure needs for the natural gas and power markets in Northeast Mexico through the year 2013. A collateral

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opportunity to import natural gas into the U.S. via the project's route and facilities is also contemplated. Management is in active negotiations for LNG supply, U.S. supply and off take gas contracts in Mexico and the U.S. The projects will be developed and operated with a tolling business model as the revenue premise, however, joint venture or contractual relationships with third parties may allow the Company to participate in merchant operations in the energy supply business for Mexican and U.S. customers.

We have had substantive and ongoing discussions with interested third parties regarding project financing and will continue these discussions throughout the year as the projects develop.

RESULTS OF OPERATIONS

THE THREE MONTHS ENDED MARCH 31, 2005 AS COMPARED WITH THE THREE MONTHS ENDED MARCH 31, 2004

REVENUES: The Company reported revenues of \$ 628,075 for the three months ended March 31, 2005 as compared with revenues from continuing operations of \$ 0 for the three months ended March 31, 2004. The revenue increase resulted from the acquisition of an additional 73% interest in Reef Ventures, L.P. which owns and operates a natural gas pipeline serving the Piedras Negras, Coahuila market and the acquisition of residential propane delivery pipeline assets from ONEOK Propane Company in the fourth quarter of 2004 Transportation fees (\$ 74,211) charged from the Reef Ventures, L.P. operations plus sales of propane by Sonterra Energy Corporation to its residential customer base (\$ 512,738) and construction service income of \$41,126 resulted in Total Revenues of \$628,075 for the three months ended March 31, 2005.

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TOTAL COSTS AND EXPENSES: Total costs and expenses from continuing operations increased from \$ 1,538,208 for the three months ended March 31, 2004 to \$ 1,897,592 for the three months ended March 31, 2005. Cost of Sales increased from \$0 for the three months ended March 31, 2004 to \$ 284,679 for the three months ended March 31, 2005. Operating Expenses increased from \$ 0 for the three months ended March 31, 2004 to \$ 66,774 for the three months ended March 31, 2005. Depreciation Expense increased from \$ 11,280 for the three months ended March 31, 2004 to \$ 115,441 for the three months ended March 31, 2005. Interest Expense increased from \$ 4,719 for the three months ended March 1, 2004 to \$ 209,787 for the three months ended March 31, 2005. Each of these increases resulted primarily from growth related to the acquisition of 98% of the partnership interest in the Reef Ventures, L.P. international pipeline operations and the acquisition of the residential propane sales business near Austin, Texas by Sonterra Energy Corporation. Sales, General and Administrative Expenses decreased from \$ 1,522,209 for the three months ended March 31, 2004 to \$ 1,220,911 for the three months ended March 31, 2005.

COST OF SALES: Total Cost of Sales increased from \$0 for the three months ended March 31, 2004 to \$ 284,679 for the three months ended March 31, 2005 due to the purchase cost of propane and the installation cost of new meter hookups for the assets owned by Sonterra Energy Corporation.

OPERATING EXPENSES: Operating expenses from continuing operations increased from \$ 0 for the three months ended March 31, 2004 to \$ 66,774 for the three months ended March 31, 2005. This increase was primarily due to the operating expenses incurred by Sonterra Energy Corporation. Depreciation expense increased by \$ 104,161 during the three months ended March 31, 2005 due to the acquisition of the natural gas pipeline owned by Reef Ventures, L.P. and the depreciable assets acquired by Sonterra Energy Corporation for the operation of the residential propane distribution systems in Austin, Texas. Interest expense increased by \$ 205,068 during the three months ended March 31, 2005 when compared to the period ended March 31, 2004 due to the debt incurred to acquire the natural gas pipeline owned by Reef Ventures, L.P. and the issuance of convertible debt to entities associated with the Mercator Advisory Group, LLC, now known as M.A.G. Capital, LLC.

GENERAL AND ADMINISTRATIVE: General & Administrative Expenses decreased by \$ 301,298 during the three months ended March 31, 2005 as compared with the period ended March 31, 2004. Decreased consulting fees were primarily responsible for the difference between the respective periods.

NET LOSS FROM OPERATIONS: Net loss of (\$1,534,341) for the three months ended March 31, 2004 decreased to (\$ 1,236,692) for the three months ended March 31, 2005, a decrease in the amount of loss of \$ 297,649. Included in the net loss from operations is \$382,000 of expenses for financing costs, consulting fees, and legal fees paid by issuance of common stock.

LIQUIDITY AND CAPITAL RESOURCES: Direct capital expenditures during the three months ended March 31, 2005 totaled \$ 278,421. The capital expenditures were composed of increased office furniture, equipment and leasehold costs (\$ 41,076), pre-construction costs regarding potential international pipeline crossings and storage facilities in Mexico (\$ 168,471), , and additional machinery, equipment, trucks, autos and trailers for the operation of the Sonterra Energy Corporation propane systems (\$68,878). Total debt decreased from \$ 12,306,107 at December 31, 2004 to \$ 12,256,131 at December 31, 2005. The decrease in total debt is primarily due to payment of accounts payable and

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accrued expenses. Net loss for the three months ended March 31, 2005 was (\$ 1,236,692) a decrease in net loss of 19% from the net loss of (\$ 1,534,341) for the three months ended March 31, 2004. Basic and diluted net loss per common share decreased 33% to (\$0.02). The net loss per share calculation for the three months ended March 31, 2005 included an increase in actual and equivalent shares outstanding.

YEAR ENDED DECEMBER 31, 2004 AS COMPARED TO YEAR ENDED DECEMBER 31, 2003

RESULTS OF OPERATIONS

REVENUES: The Company reported revenues of \$1,883,838 for the twelve months ended December 31, 2004 as compared with revenues from continuing operations of \$178,856 for the twelve months ended December 31, 2003. The revenue increase resulted primarily from the acquisition of an additional 73% interest in Reef Ventures, L.P. which owns and operates a natural gas pipeline serving the Piedras Negras, Coahuila market. Natural gas sold (\$1,323,459) and transportation fees (\$76,767) charged from these operations totaled \$1,400,227 for the twelve months ended December 31, 2004. Sales of propane by Sonterra Energy Corporation to its residential customer base (\$363,413), service call income for its customers (\$34,373), and installation income for new yard lines and meter sets (\$2,850) totaled to \$400,636 for the twelve months ended December 31, 2004. A new revenue source from Sonterra Energy Corporation was construction services related to propane main lines and tank sites for subdivisions under development, which resulted in \$82,975 of revenues for the twelve months ended December 31, 2004. Other Revenues decreased by \$178,856 for the twelve months ended December 31, 2004 as compared to the twelve months ended December 31, 2003.

TOTAL COSTS AND EXPENSES: Total costs and expenses from continuing operations increased from \$3,061,068 for the twelve months ended December 31, 2003 to \$8,451,280 for the twelve months ended December 31, 2004. Each category of cost and expense increased significantly due to the rapid growth in assets and operating expenses experienced by the Company during the twelve months ended December 31, 2004. Cost of Sales increased from \$0 for the twelve months ended December 31, 2003 to \$1,508,891 for the twelve months ended December 31, 2004. Operating Expenses increased from \$27,767 for the twelve months ended December 31, 2003 to \$99,665 for the twelve months ended December 31, 2004. Depreciation Expense increased from \$43,006 for the twelve months ended December 31, 2003 to \$244,889 for the twelve months ended December 31, 2004. Interest Expense increased from \$53,163 for the twelve months ended December 31, 2003 to \$300,566 for the twelve months ended December 31, 2004. Each of these increases resulted primarily from growth related to the acquisition of 98% of the partnership interest in the Reef Ventures, L.P. international pipeline operations and the acquisition of the residential propane sales business near Austin, Texas by Sonterra Energy Corporation. Officers & Directors Salaries & Fees increased from \$313,000 for the twelve months ended December 31, 2003 to \$1,331,848 for the twelve months ended December 31, 2004. This increase resulted from the addition of additional directors and officers combined with the increased use of stock based compensation in the employment agreements of officers. General and Administrative Expenses increased from \$2,624,132 for the twelve months ended December 31, 2003 to \$4,965,421 for the twelve months ended December 31, 2004 due to the results from the startup and initial operation of the additional business units mentioned above and the expenses for expanded Company operations associated with the development of new midstream energy projects in the U.S. and Mexico during that period.

COST OF SALES: Total Cost of Sales increased from \$0 for the twelve months ended December 31, 2003 to \$1,508,891 for the twelve months ended December 31, 2004. Cost of sales increased by \$1,299,518 for the purchase cost of natural gas resold thru our international pipeline operated by Reef Ventures, L.P. and by \$209,373 for the purchase cost of propane, meter sets and yard lines sold to

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residential customers by Sonterra Energy Corporation.

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OPERATING EXPENSES: Operating expenses from continuing operations which are expenses related to the operation of company assets in an active business segment increased from \$27,767 for the twelve months ended December 31, 2003 to \$99,665 for the twelve months ended December 31, 2004 which is a total increase of \$71,898. This increase was due to the operating expenses incurred for the international pipeline crossing operated by Reef Ventures, L.P. and the operating expenses incurred by Sonterra Energy Corporation. Depreciation expense increased by \$201,883 during the twelve months ended December 31, 2004 due to the acquisition of the natural gas pipeline owned by Reef Ventures, L.P. and the depreciable assets acquired by Sonterra Energy Corporation for the operation of the residential propane distribution systems in Austin, Texas. Interest expense increased by \$247,403 during the twelve months ended December 31, 2004 due to the debt incurred to acquire the natural gas pipeline owned by Reef Ventures, L.P. and the issuance of convertible debt to entities associated with the Mercator Advisory Group. Officers & Directors Salaries & Fees increased by \$1,018,848 during the twelve months ended December 31, 2004 as a result of the addition of one director and two officers to the Company combined with the increased use of stock based compensation in the employment agreements of officers.

GENERAL AND ADMINISTRATIVE: General & Administrative Expenses increased by \$2,341,289 during the twelve months ended December 31, 2004. Consulting fees, legal fees, and financing fees increased by \$1,822,414 for the twelve months ended December 31, 2004. The remaining increase in G & A costs of \$518,875 for the twelve months ended December 31, 2004 was from increases in travel costs, office rent, insurance premiums, entertainment, and payroll plus other expenses associated with additional employees. The significant expansion of scope in the business plan for the Company and the need to conserve cash working capital for certain project pre-development costs required the use of significant issuances of stock for general and administrative expenses during the twelve months ended December 31, 2004.

NET LOSS FROM OPERATIONS: Net loss of (\$1,348,481) for the twelve months ended December 31, 2003 increased to (\$6,517,732) for the twelve months ended December 31, 2004, an increase in the amount of loss of \$5,169,251. Included in the net loss from operations is \$4,603,066 of expenses for financing costs, consulting fees, legal fees, and employee compensation paid by issuance of common stock.

LIQUIDITY AND CAPITAL RESOURCES: Direct capital expenditures during the twelve months ended December 31, 2004 totaled \$8,727,010 as compared with \$134,505 for the twelve months ended December 31, 2003. The increased capital expenditures were composed of the acquisition of the assets of Reef Ventures, L.P. natural gas pipeline (\$5,933,442), increased office furniture, equipment and leasehold costs (\$26,550), higher pre-construction costs regarding potential international pipeline crossings and storage facilities in Mexico (\$822,525), pre-construction costs related to propane distribution systems (\$207,415), machinery, equipment, trucks, autos and trailers from the Sonterra asset acquisition (\$120,355), storage tanks and main lines for propane distribution (\$1,596,439) and additional equipment for our gas processing plant (\$20,000).

The Company also paid \$1,158,937 for goodwill associated with the acquisition of the Reef Ventures, L.P. and Sonterra Energy Corporation assets. Total debt increased from \$1,138,905 at December 31, 2003 to \$12,306,107 at December 31, 2004. The increase in total debt is primarily due to: (1) the acquisition

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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 4 5 and Note 14 to the Consolidated Financial Statements for the period ended December 31, 2004, and (2) the issuance of Convertible Debentures to the Mercator Advisory Group, LLC funds as described in Note 4 5 of the Consolidated Financial Statements for the period ended December 31, 2004. Total debt as of December 31, 2004 and December 31, 2003 expressed as a percentage of the sum of total debt and shareholders' equity was 71.45% and 70.15% respectively.

Net loss for the twelve months ended December 31, 2004 was (\$6,517,182) an increase in net loss of 483% from the net loss of (\$1,348,481) for the twelve months ended December 31, 2003. Diluted net loss per common share increased 300% to (\$0.09). The net loss per share calculation for the twelve months ended December 31, 2004 included an increase in actual and equivalent shares outstanding. In addition, the period ended December 31, 2003 included a one time gain of partial sale of a subsidiary in the amount of \$1,533,731 which influenced the difference in net income (loss) per share for the periods ending December 31, 2003 versus December 31, 2004.

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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.

SELLING SHAREHOLDERS

The following table provides certain information about the selling shareholder's beneficial ownership of our common stock as of March 31, 2005 and as adjusted to give effect to the sale of all of the shares being offered by this prospectus.

The number of shares that the Mercator Momentum Fund, LP, Mercator Momentum Fund III, LP, Monarch Pointe Fund, Ltd., M.A.G. Capital, LLC, formerly, Mercator Advisory Group, LLC, and Robinson Reed, Inc., will own at any time are subject to limitation in the governing agreements for the 7% Convertible Debentures and warrants, respectively, so that the aggregate number of shares of common stock of which such selling stockholder and all persons affiliated with such selling

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stockholder (calculated pursuant to Rule 13d-3 of the Securities Exchange Act of 1934, as amended) does not at any time exceed 9.99% of our then outstanding common stock. The Mercator group of companies and Robinson Reed have agreed to restrict their right to convert their debentures into our common stock and restrict their right to exercise their common stock warrants into our common stock. They do not have the right to convert debentures to stock or exercise their common stock warrants, if it would cause their beneficial ownership to exceed 9.99% of the total issued and outstanding shares of our Company. The practical effect of these restrictions is that the Mercator group of companies and Robinson Reed can never be in a position to be deemed a 10% shareholder of our Company.

The following table identifies the selling stockholders and indicates (i) the nature of any position, office or other material relationship that each selling stockholder has had with us during the past three years (or any of our predecessors or affiliates) and (ii) the number of shares and percentage of our outstanding shares of common stock owned by the selling stockholder prior to the offering, the number of shares to be offered for the selling stockholder's account and the number of shares and percentage of outstanding shares to be owned by the selling stockholder after completion of the offering.

The percentage interest of each selling stockholder is based on the beneficial ownership of such selling stockholder divided by the sum of the current outstanding shares of common stock plus the additional shares, if any, which would be issued to such selling stockholder (but not any other selling stockholder) when exercising warrants or other rights in the future. Applicable percentage of ownership is based on 62,363,359 shares of common stock outstanding as of March 31, 2005 together with securities exercisable or convertible into shares of common stock within 60 days of March 31, 2005, for each stockholder. Beneficial ownership is determined in accordance with the

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rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to securities exercisable or convertible into shares of common stock that are currently exercisable or exercisable within 60 days of March 31, 2005 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Note that affiliates are subject to Rule 144 and insider trading regulations and percentage computation is for form purposes only.

Table 1.

Name of Selling Shareholder	Shares Beneficially Owned Before Offering	Percent of Class of Shares Owned Before the Offering (A)	Maximum Number of Shares to be Sold in this Offering	Shares Owned Offeri
Impact International, LLC(1)	9,199,980	14.75%	9,199,980	-0-
Carl Allers Etablissemen (2)	1,914,729	3.07%	1,914,729	-0-

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Margaux Group(3) Investment Mgmt.	3,988,889	6.396%	3,988,889	-0-
ACH Securities(4)	4,000,000	6.414%	4,000,000	-0-
Mercator Momentum Fund, LP (5)	3,291,974	5.278%	3,291,974	-0-
Mercator Momentum Fund III, LP(6)	2,268,092	3.636%	2,268,092	-0-
Monarch Pointe Fund, LP (7)	7,400,463	11.866%	7,400,463	-0-
M.A.G. Capital, LLC(8)	17,690,059	28.37%	17,690,059	-0-
David F. Firestone(9)	17,690,059	28.37%	17,690,059	-0-
Michael Ward (10)	500,000	0.80%	500,000	-0-
Royis Ward (11)	500,000	0.80%	500,000	-0-
James B. Smith (12)	500,000	0.80%	500,000	-0-
Ahmed Karim (13)	500,000	0.80%	500,000	-0-
Samuel Simon (14)	500,000	0.80%	500,000	-0-
Robinson Reed (15)	1,357,820	2.18%	1,357,820	-0-
Total	39,293,657	63.00%	39,293,657	-0-

(A) Based on 62,363,359 of common stock issued and outstanding on March 31, 2005. (B) Assumes that the selling shareholder will sell all of the shares of the common stock offered by this prospectus. We cannot assure you that the selling shareholders will sell all or any of these shares.

(1) Represents up to 7,500,000 shares of common stock issuable upon exercise of common stock warrants and 1,699,980 shares of common stock presently issued and outstanding. Robert S. May has voting and dispositive power with respect to the securities owned by Impact International, LLC.

(2) Represents 1,914,729 shares of common stock presently issued and outstanding. Jens Vesterager has voting and dispositive power with respect to the securities owned by Carl Allers Establishment.

(3) Represents 1,988,889 shares of common stock presently issued and outstanding and 2,000,000 shares of common stock issuable upon exercise(a)1,000,000 shares at \$0.50 per share, and 1,000,000 shares at \$2.50 per share. Carl Hessel has voting and dispositive power with respect to the securities owned by Margaux Investment Management Group.

(4) Represents 4,000,000 shares of common stock issued and outstanding. Peter Andersson has voting and dispositive power with respect to the securities owned by ACH Securities.

(5) Represents up to 751,974 shares of common stock issuable upon exercise of common stock warrants and 2,540,000 shares issuable upon conversion of the 7% Debenture calculated at the "Floor Price". Mercator Momentum Fund, L.P. is a private investment limited partnership organized under California law. M.A.G. Capital, LLC, formerly Mercator Advisory Group, LLC is the general partner of the Momentum Fund. David F. Firestone, is the managing member of M.A.G. Capital,

LLC. Mr. Firestone has voting and investment control over the shares held by the Mercator Momentum Fund, L.P. The selling stockholder has agreed not to convert the Debentures or to exercise warrants to the extent such stockholder's beneficial ownership of our common stock would exceed 9.99% of our common stock then outstanding.

(6) Represents up to 518,092 shares of common stock issuable upon exercise of common stock warrants and 1,750,000 shares issuable upon conversion of the 7% Debenture calculated at the "Floor Price". M.A.G. Capital, LLC, formerly Mercator Advisory Group, LLC is the general partner of the Mercator Momentum Fund III, L.P. The Mercator Momentum Fund III is a private investment limited partnership organized under California law. David F. Firestone, is the managing member of M.A.G. Capital, LLC. Mr. Firestone has voting and investment control over the shares held by the Mercator Momentum Fund III, L.P. The selling stockholder has agreed not to convert the Debentures or to exercise warrants to the extent such stockholder's beneficial ownership of our common stock would exceed 9.99% of our common stock then outstanding.

(7) Represents up to 1,690,462 shares of common stock issuable upon exercise of common stock warrants and 5,710,001 shares issuable upon conversion of the 7% Debenture calculated at the "Floor Price". Monarch Pointe Fund, Ltd. is a corporation organized under the laws of the British Virgin Islands. M.A.G. Capital, LLC, formerly Mercator Advisory Group, LLC is the manager of Monarch Pointe Fund, Ltd. David Firestone is the managing member of M.A.G. Capital, LLC. Mr. Firestone has voting and investment control over the shares held by Monarch Pointe Fund, Ltd. The selling stockholder has agreed not to convert the Debentures or to exercise warrants to the extent such stockholder's beneficial ownership of our common stock would exceed 9.99% of our common stock then outstanding. The selling shareholder disclaims beneficial ownership in excess of 9.99% of the outstanding shares of our common stock.

(8) Represents 17,690,059 shares of common stock issuable upon the exercise of common stock warrants or upon conversion of the 7% Convertible Debentures at the "Floor Price" owned by the collective Mercator entities and Robinson Reed to which beneficial ownership, is attributed to M.A.G. Capital, LLC, formerly Mercator Advisory Group, LLC. M.A.G. Capital has voting and investment control over the Mercator Momentum Fund, L.P., the Mercator Momentum Fund III, L.P. the Monarch Pointe Fund, Ltd., and Robinson Reed, Inc. The selling stockholder has agreed not to convert the Debentures or to exercise warrants to the extent such stockholder's beneficial ownership of our common stock would exceed 9.99% of our common stock then outstanding. The total number of shares and the percentage of share ownership attributed to M.A.G. Capital, in the table above, represents the total of all shares of the four Mercator entities and Robinson Reed, if there were no contractually imposed limitations on beneficial ownership. The selling shareholder disclaims beneficial ownership in excess of 9.99% of the outstanding shares of our common stock.

(9) Represents 17,690,059 shares of common stock issuable upon the exercise of common stock warrants or upon conversion of the 7% Convertible Debentures at the "Floor Price" owned by the collective Mercator entities and Robinson Reed to which beneficial ownership, is attributed to David F. Firestone as the managing member of M.A.G. Capital, LLC, formerly Mercator Advisory Group, LLC. M.A.G. Capital has voting and investment control over the Mercator Momentum Fund, L.P., the Mercator Momentum Fund III, L.P. the Monarch Pointe Fund, Ltd., and Robinson Reed, Inc. As the managing member of M.A.G. Capital, LLC, Mr. Firestone has indirect voting and investment control over all of the Mercator entities. The selling stockholder has agreed not to convert the Debentures or to exercise warrants to the extent such stockholder's beneficial ownership of our common stock would exceed 9.99% of our common stock then outstanding. The total number of shares and the percentage of share ownership attributed to Mr. Firestone, in

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the table above, represents the total of all shares of the four Mercator entities and Robinson Reed, if there were no contractually imposed limitations on beneficial ownership. Mr. Firestone disclaims beneficial ownership in excess of 9.99% of the outstanding shares of our common stock.

(10) Represents 500,000 common shares owned by Michael Ward. Mr. Ward is the Company's CEO, President and member of the board of directors.

(11) Represents 500,000 common shares owned by Royis Ward.

(12) Represents 500,000 common shares owned by James B. Smith. Mr. Smith is the Company's CFO and Sr. Vice President.

(13) Represents 500,000 common shares owned by Ahmed Karim. Mr. Karim is the Company's Vice President and member of the board of directors.

(14) Represents 500,000 common shares owned by Samuel Simon. Mr. Simon is employed by the Company as an accountant.

(15) Represents 246,710 shares of common stock issuable upon exercise of common stock warrants and 1,111,110 shares issuable upon conversion of the 7% Debenture calculated at the "Floor Price". Robinson Reed, Inc. is a British Virgin Islands

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International Business Company. M.A.G. Capital, LLC exercises voting and dispositive powers with respect to the Robinson Reed over the warrants, debentures and underlying common stock.

PLAN OF DISTRIBUTION

In this section of the prospectus, the term "selling stockholder" means and includes: (1) the persons identified in the tables above as the selling stockholders; and (2) any of their donees, pledgees, distributees, transferees or other successors in interest who may (a) receive any of the shares of our common stock offered hereby after the date of this prospectus and (b) offer or sell those shares hereunder.

The shares of our common stock offered by this prospectus may be sold from time to time directly by the selling stockholders. Alternatively, the selling stockholders may from time to time offer such shares through underwriters, brokers, dealers, agents or other intermediaries. The distribution of the common stock by the selling stockholders may be effected: in one or more transactions that may take place on the OTCBB (including one or more block transaction) through customary brokerage channels, either through brokers acting as agents for the selling stockholders, or through market makers, dealers or underwriters acting as principals who may resell these shares on the OTCBB; in privately-negotiated sales; by a combination of such methods; or by other means. These transactions may be effected at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at other negotiated prices. Usual and customary or specifically negotiated brokerage fees or commissions may be paid by the selling stockholders in connection with sales of our common stock.

The Mercator group of selling stockholders have agreed not to initiate short sales of our common stock. Additionally, the Mercator group of selling stockholders have agreed not to sell, in the aggregate during any trading day, shares of our stock totaling more than 20% of the total shares of our stock traded on any such trading day. Any securities covered by this prospectus which qualify for sale pursuant to Rule 144 may be sold under Rule 144 rather than pursuant to this prospectus. There is no underwriter or coordinating broker acting in connection with the proposed sale of shares of common stock the selling stockholders.

Although the shares of common stock covered by this prospectus are not currently being underwritten, the selling stockholders or their underwriters, brokers,

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dealers or other agents or other intermediaries, if any, that may participate with the selling stockholders in any offering or distribution of common stock may be deemed "underwriters" within the meaning of the Securities Act and any profits realized or commissions received by them may be deemed underwriting compensation thereunder.

Under applicable rules and regulations under the Exchange Act, any person engaged in a distribution of shares of the common stock offered hereby may not simultaneously engage in market making activities with respect to the common stock for a period of up to five days preceding such distribution. The selling stockholders will be subject to the applicable provisions of the Exchange Act and the rules and regulations promulgated thereunder, including without limitation Regulation M, which provisions may limit the